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**The Management Accounting Needs of Small Enterprises
And the Role of Small Accounting Practices**

Vandana M. Tripathi

**The Open University Business School
Department of Accounting and Finance**

**Thesis submitted for the Degree of Doctor of Philosophy
At the Open University**

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Abstract

Management accounting research has previously focused mostly on large firms rather than SMEs despite the significance of SMEs in the UK economy. The high failure rate of small enterprises in the UK points to the need to increase their financial robustness. Small accounting practices (SAPs) would seem to provide a possible alternative source of management accounting information for businesses too small to afford in-house accountants, but the literature over thirty years suggests that this approach has not been adopted. The sparse research in this area has proposed disparate reasons for the limited use of SAPs, without providing a definitive explanation. The intractability of the barriers to the use of SAPs for the provision of management accounting information points to a mismatch between management accounting theory, which tends to be based on neo-classical economics, and the approach used in practice in small firms and SAPs.

The research investigates these barriers, assessing the extent to which owner-managers carry out management accounting in small enterprises despite the opportunity costs involved and explores the reasons behind their tendency not to seek management accounting services from SAPs. It also evaluates the potential of SAPs to provide management accounting services and the reasons limiting their promotion. The research draws on a critical realist perspective using qualitative, multiple case studies involving semi-structured interviews to examine the degree to which neo-classical economic theory, old institutional economics and new institutional sociology can explain how the barriers have arisen and why they have remained. The findings expand existing research on management accounting by bringing into focus the interaction between actors and their structural context in small firms and SAPs, demonstrating how that shapes management accounting practices, particularly with regard to the barriers to the greater use of SAPs.

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This thesis is dedicated to my parents, Mukund and Jaishree Tripathi, my uncle Dr Krishna Tripathi (PhD in Organic Chemistry) and my husband Hugh McConnel.

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Abbreviations Used

BIS	Department for Business, Innovation and Skills (UK government)
NIE	New Institutional Economics
NIS	New Institutional Sociology
OIE	Old Institutional Economics
SAP	Small Accounting Practice
SME	Small and Medium Enterprise
TCE	Transaction Cost Economics

Chapter 1 – Introduction to the Research

1.1.0 The Purpose of the Research

This research focuses on the barriers to the use of small accounting practices (SAPs)⁽¹⁾ for the provision of management accounting information to small enterprises. Medium-sized enterprises are not included in the research since an in-house management accounting function is more likely to be feasible for them. However, it is necessary to consider first some general issues concerning small and medium enterprises (SMEs) as a whole.

SMEs are an important part of the economy of the UK, yet difficulties with financial sustainability lead to a relatively high failure rate (European Commission, 2015; Broccardo, 2014). The competitive climate in which SMEs operate means that they need to be continually aware of both their internal financial position and the financial aspects of their general business context. Appropriate management accounting information is therefore important for SMEs. As mentioned, medium-sized enterprises may well be able to maintain some management accounting provision in-house, but this is unlikely to be the case for small enterprises. This raises the question as to how management accounting information can be provided to small enterprises. Since many are already using SAPs for statutory annual reports and taxation, it seems at first sight that they could also use SAPs for management accounting information. There has been very little research in this area, but the common theme throughout such research has been that SAPs are not generally used in this way (as discussed further in Chapter 2). A variety of reasons for this have been

¹ The term ‘SAP’ has been used here to refer to the accountants in practice that many small enterprises already use for statutory annual reports and taxation. Historically, in the previous research examined in Chapter 2, these have mostly been small accounting practices, so this thesis continues to use the familiar term ‘SAP’ while recognising that external accountants may now work in different settings and a simple extension of an existing auditing contract to cover management accounting services may not be feasible if conflicts of interest are to be avoided.

proposed in the existing literature, but no definitive explanation has emerged over several decades of, admittedly sparse, research.

The intractability of the barriers to the use of SAPs for the provision of management accounting information may point to a mismatch between management accounting theory, which tends to be based on neo-classical economics (Scapens, 1994), and the approach used in practice in small enterprises and SAPs. The generality of the barriers suggests that they stem from sociological factors rather than the particular characteristics of the individuals in key roles in small enterprises and SAPs.

This research therefore focuses on small enterprises and the barriers to the use of SAPs for the provision of management accounting information. Using a case study approach based on semi-structured interviews, it examines from a critical realist perspective the degree to which a number of existing theoretical perspectives can explain how the barriers have arisen and why they have remained. The next section summarises the development and planned execution of the research.

1.2.0 The Structure of the Thesis

The rest of this thesis consists of a further 16 chapters as summarised below.

Chapter 2 positions the research by identifying the lack of a definitive explanation of the barriers to the provision of management accounting information to small enterprises by SAPs. It then specifies the research question and the objectives of the research before briefly referring to the methodology to be elaborated in Chapter 4.

Chapter 3 critically analyses and evaluates the existing literature on the theoretical perspectives that could give insight into the issues raised by the research question. The theories covered are neo-classical economic theory, structuration theory, new institutional economics, old institutional economics and new institutional sociology.

Chapter 4 outlines the appropriate research methodology and methods. It discusses the epistemological and ontological stances of different research paradigms. The chapter considers in detail the applicability of a critical realist approach to the research. Data collection techniques and methods are also identified.

Chapters 5 to 15 thematically analyse the data from each of the cases studied using the theoretical frameworks and methodology outlined in Chapters 3 and 4 respectively. These preliminary analyses consider each case on its own. The cross case-analysis in Chapter 16 carries out a fuller analysis.

Chapter 16 analyses across the cases, considering the small firms as a whole, then the SAPs, before analysing the patterns between the two groups, drawing out tendencies which indicate commonality across the cases and others which illustrate the way that practices in individual small enterprises and SAPs have arisen because of the specific structures within that organisation.

The thesis concludes with *Chapter 17*, which considers the degree to which the overall findings answer the research question and meet the aim of the research. The chapter draws out the findings related to the research question and points to the ways in which future research could increase the generalisability of the research by replicating or refuting these findings. It also draws out other issues which have emerged from the empirical data which future research could seek to explain. The chapter illustrates how external and internal factors have shaped the development of management accounting practices and evaluates the degree to which the decisions and the behaviours of the human actors can be better explained in terms of neo-classical economics or through the effects of institutions. The chapter ends by identifying the limitations of this study.

1.3.0 Conclusion

This introductory chapter briefly indicates why this research has been focused on the provision of management accounting information to small enterprises by SAPs. The justification for this focus arises from a critical review in Chapter 2 of the small amount of existing research on the significance of management information for small enterprises. This highlights two specific issues: firstly, how to provide this information to small enterprises for which in-house provision is not feasible; and, secondly, given the view in the past research that SAPs have the potential to provide management accounting information to small enterprises, the lack of a definitive explanation of the barriers that have prevented this from happening. It is from the conclusions of this review that Chapter 2 derives the research question. Following from that, Chapter 3 critically reviews the literature covering existing theoretical perspectives which could potentially provide explanations for the behaviour of the key individuals involved in the development and maintenance of the barriers and so contribute to resolving the research question.

Chapter 2

Literature Review Part 1: The Rationale for the Research

2.1.0 Introduction

This chapter reviews existing research in order to identify the gap into which this research project needs to be positioned. In 2.2.0 it considers issues concerning SMEs in general, their social and economic significance and their vulnerability to financial failure. Section 2.3.0 narrows the focus onto small enterprises which are unlikely to be able to afford in-house accounting provision. It also considers the barriers to the use of SAPs for providing small enterprises with management accounting information. Section 2.4.0 develops the research question and objectives. Section 2.5.0 gives a broad summary of the contribution of this research and section 2.6.0 briefly outlines the methodology, which is developed in detail in Chapter 4. Section 2.7.0 justifies the use of an ex ante perspective in the interviewing and analysis.

2.2.0 The Economic and Social Role of SMEs

While this research focuses on small enterprises, some initial consideration is needed on the role of small and medium enterprises (SMEs). SMEs are a key force in the economy of the UK (BIS, 2016). They play an important role in many economies of the world (European Commission, 2015; Lavia López and Hiebl, 2015; Mitchell and Reid, 2000; Arnold et al., 1984) representing the seedbed from which large enterprises may grow (Nandan, 2010). Mitchell and Reid (2000) argue that SMEs, having the flexibility to adjust to niche opportunities, are able to grow quickly and experience unusually high performance, but only a small percentage can sustain high performance while the majority struggle for survival (Broccardo, 2014; Mitchell and Reid, 2000). SMEs operate in an increasingly complex and competitive business environment in which they need awareness of their internal and external financial context, so management accounting information is

important not just for operational efficiency but also for planning and decision-making (Banham and He, 2014). Yet there has been little research on management accounting in SMEs, particularly in recent years (Lavia López and Hiebl, 2015).

SMEs are of great significance, not just because of the amount that they contribute to the economy and their flexibility and innovation, but also because of their major social role in providing employment. It is therefore important that research continues to explore how their operation and survival can be enhanced. In view of the socio-economic importance of SMEs just mentioned, it is important to understand the ways in which they contribute to the economy and how they differ from larger enterprises.

Statistics for 2015 published by the UK government Department for Business, Innovation and Skills (BIS) showed that 99.9% of private sector businesses in the UK were SMEs. They were estimated to be employing 15.6 million people (60% of private sector employment) and to have a combined annual turnover of £1.8 trillion (48% of private sector turnover) (BIS, 2016).

There have been many different views as to the most appropriate definition of an SME for research purposes (House of Commons Treasury Committee, 2015; Jenkins, 2008). Definitions have ranged over the last 40 years from the Bolton Committee's 1971 Report (Bolton, 1971) through to the European Commission (2014). In order to delineate a class of enterprises to be studied, this research has adopted the commonly used maximum-size criteria given in the UK's *Companies Act 2006*, namely satisfying at least two of the three requirements in Table 2.1 overleaf (although the enterprises used in the research will not necessarily be registered as companies).

Table 2.1: Definition of Small and Medium Enterprises

	Maximum Turnover	Maximum Balance Sheet Total	Maximum Number of Employees
Small	£ 6.5 m	£ 3.26 m	50
Medium	£ 25.9 m	£ 12.9 m	250

*(Companies Act 2006 ss.382 and 465 as amended by the Companies Act 2006 (Amendment)
(Accounts and Reports) Regulations 2008, regulations 3 and 4)*

SMEs tend to have a small number of customers and owner-managers are often the main decision-makers as well as providers of capital. Some SMEs are at early stages of development and could potentially become large enterprises in the future. While their flexibility is an advantage, they tend not to be able to make economies of scale and have limited access to resources. Hence to remain competitive they need sufficient management accounting information to manage their resources and assist with management planning and control, but owner-managers often lack management accounting skills and cannot afford in-house management accounting specialists (Lavia López and Hiebl, 2015).

Management accounting information is likely to be of considerable importance to SMEs. However, the approach to develop this area must take into account that SMEs vary in size and industry as well as in the approach of their owners in managing the business (European Commission, 2015; Storey, 1994; Stanworth and Gray, 1991; Drucker, 1963). They will have differing amounts of resources available for management accounting services whether in-house or contracted. In short their accounting needs are likely to vary depending on the specific strategic, organisational and financial issues that they experience at different times. Research therefore needs to uncover linkages and patterns in this diversity. However, much recent research has tended to concentrate on the way management accounting systems have been used in large organisations (Lavia López and Hiebl, 2015). The amount of management accounting research on small enterprises falls well short of the

level that might be expected given their current economic and social significance (Broccardo, 2014; Mitchell and Reid, 2000).

Since SAPs are often already involved with SMEs for compliance work such as annual accounts, they can assist to some degree in providing help and advice on wider issues as suggested by Blackburn and Jarvis (2010). Compliance work tends to be supply driven in that the service is optimised to attract a share of a market for goods which are defined by regulation and SMEs have no choice but to purchase the good or produce it themselves. In contrast, wider business advisory services need to be demand driven in that SMEs are operating in a dynamic market environment so the specific demand from an SME depends on changing regulatory requirements and the particular circumstances of the SME at any particular time (Blackburn et al., 2010).

Blackburn and Jarvis (2010, p.5) argue that the advisory services are most likely to be provided by SAPs when SME demand has arisen because of a ‘milestone change’ within the SME. This tends to arise because of growth, planning, succession, restructuring or an alteration in the SME’s environment in terms of government regulations or an altered competitive context. This dynamic demand for advisory services can be met by SAPs only if they have anticipated the demand and adjusted accordingly. A study by the Small Business Research Centre (2005) claimed that growth in the amount of government regulations has generated derived demand in areas of employment, health safety and environmental regulations. The literature suggests that the demand historically for accounting services has been because of statutory requirements termed as distress purchase (Marriott and Marriott, 2000; Keasey and Short, 1990). Gooderham et al. (2004) point out that despite a lack of in-house expertise SMEs are often unwilling to take up the potential non-compliance services provided by SAPs. Curran and Blackburn (1994, p.12) see the reluctance of owner managers to seek such services from SAPs as resulting from a ‘fortress

enterprise' mentality which causes owner managers of SMEs to tend to solve problems by themselves rather than involving outsiders.

Existing literature (Kirby and King, 1997; Scapens et al. 2003) suggest that an expectancy gap exists between the needs of the owner managers of small firms and the external accountants' ability to supply them. The existing relationship between SAPs and their clients, based predominately on supplying compliance services, provides a foundation from which SAPs can also sell management accounting services. Bennett and Smith (2002) argue that small firms by using SAPs for management accounting services may benefit from reduced information costs and the SAPs prior knowledge. It may therefore appear that SAPs are well placed to provide these services to clients, but the literature suggests that they need to convince clients that they can offer value for money services and have the expertise to provide solutions specific to their problems. Blackburn and Jarvis's (2010) research suggests the need for increased specialisation within SAPs to be able to act as a hub for meeting the variety of demands from small firms. For SAPs to become trusted referral networks they should be able to provide a full range of services. If SAPs are to become a single contact point, they have to broaden their skills, moving away from their original core competency to acquire new skills not related to their profession. Jarvis and Rigby (2012) rightly point out that this raises professional and ethical questions as to whether it would erode the professional identity of SAPs. However, future research would be needed to establish if that is the case.

2.3.0 Positioning the Research onto Small Enterprises

While management accounting was originally concerned with costing, it is nowadays taken to cover other areas including support for decision-making (Collier, 2015; Jones, 2006). Over the last 40 years the theoretical emphasis in management accounting research has moved from being predominantly quantitative to using more qualitative approaches. The

1970s saw a concentration on mathematical modelling derived from neo-classical economics. Although this was intended to guide practitioners in management accounting, the techniques tended not to become embedded in routine practice (Scapens, 2006). Awareness of a misalignment between theory and practice led in the 1980s and 1990s to research intended to throw light on, and develop theories about, the actual practice of management accounting (Scapens et al., 2003; Scapens, 2006). However, as has been mentioned above, management accounting research has tended to focus mostly on large organisations and how the management accounting function is carried out within them (Emsfors and Holmberg, 2015).

Many of the issues faced by SMEs are different. An important matter for SMEs generally has been their relatively high rate of failure because they are unable to remain financially sustainable. As argued in the previous pages, management accounting information therefore has an important role for SMEs. Medium-sized enterprises may be able to employ management accountants, but smaller enterprises are unlikely to find that financially viable.

The key question therefore is how management accounting services, such as the provision of information to facilitate tactical and operational management, can be provided for such small enterprises. At first sight it would seem sensible for them to turn to the small accounting practices (SAPs) that they may already be using for statutory annual reports and taxation computation or advice.

The fact remains that small enterprises have tended not to use SAPs for management accounting services (Emsfors and Holmberg, 2015; Banham and He, 2014; Marriott and Marriott, 2000; Kirby and King, 1997). The small amount of research into this lack of take-up has produced a variety of reasons, which have often conflicted. The rest of this section evaluates the research over approximately the last three decades into the use of SAPs to

provide management information to small enterprises and the barriers that have prevented this from occurring.

Cunningham (1983) explored the reasons behind the failure of small enterprises, particularly because of a lack of detailed financial information, and pointed out the potential of drawing on support from professional accountants in practice. Lewis and Toon (1986), examining why this had not happened, saw accountants as not engaging with small businesses beyond their limited involvement in annual accounting, taxation and compliance. White (1983) took a similar approach, arguing that accountants were too fee-oriented and insufficiently trained to be able to provide a wider range of services including the provision of management accounting. Fearn (1984) in contrast saw the lack of engagement as coming from the managers of small firms, who tended not to seek advice from accountants, often seeing them as relevant only in terms of financial accounts and taxation. A survey of small businesses by Arnold et al. (1984) confirmed the narrow view of accountants held by managers, with only a quarter of respondents seeing accountants as very important for management information purposes. Chittenden et al. (1990) take a middle view, suggesting that neither side may be fully able to manage all the issues arising in a small business. They point out that owner-managers' reluctance to engage more widely with accountants may be based in their belief that such engagement is not relevant to small businesses; or it may actually be the case that greater use of accountants would not be beneficial.

Kirby and King's (1997) study of the relationship between SAPs and small enterprises found that SAPs saw the relationship as good but owner-managers saw accountants as lacking understanding of their businesses. They claim from their data that the reluctance of owner-managers to use SAPs for management accounting does not seem to be about cost, but about the owner-managers' perception that accountants lack knowledge of their

business. Kirby and King (1997) see the issue in terms of the need to reduce the credibility gap by changes in the perceptions of both accountants and owner-managers, allowing more realistic expectations by accountants of what they need to deliver and by owner-managers of what accountants can deliver. Nonetheless, Kirby and King (1997) see considerable opportunity for accountants to improve managerial performance in small enterprises, provided that the “expectancy gap” can be closed (Kirby and King, 1997: 302). As a result Kirby and King (1997) argue that SAPs need to increase credibility and trust by putting more emphasis on development of the relationship and becoming more involved in the businesses. Their emphasis on the dual-sided, interactive nature of the relationship is an important step forward, stressing as it does the significance of perceptions and the need to build the relationship. Their results are based on two quantitative surveys within the north-east of the UK with 31 owner-manager respondents in one and 33 chartered accountants in the other. This allowed some comparative analysis of the general views of accountants and owner-managers, although not as matched pairs within a single relationship. Given the extreme variability of small enterprises, it is not possible for a structured survey to take into account the ways in which the path-dependent factors arising from the history of a particular firm influenced the answers. Some broad categorisation was possible in their study, such as by industrial sector, but the size of such subsamples would be too small to allow meaningful generalisation. Nonetheless, the study does provide some starting points for more detailed analysis of the multi-causal contingent factors influencing whether or not small firms contract SAPs to provide management information.

Marriott and Marriott (2000) in their qualitative study of small enterprises in the UK noted that owner-managers were reluctant to obtain management accounting information from SAPs because of their perception that it would not be worth the cost. This view was partly based on managers’ experience of information which was of limited benefit because it was derived from existing data compiled for statutory financial reports. In addition, some

managers' view of cost was based on ad hoc reports for third parties such as banks and this ad hoc provision was inevitably more expensive than if the data had been routinely collected as part of a management accounting process. The study highlighted that accountants could take on an active role in raising the awareness of owner-managers as to the financial benefits of management accounting services, so encouraging managers to view the service as value for money. While this study provides insight into the barriers and opportunities in contracting SAPs for management accounting services, its emphasis on cost as the deciding factor means that it does not explore other possible factors and so differs from the conclusions of Kirby and King.

The qualitative study by Perren and Grant (2000) of four micro-firms from a social constructionist perspective provides different insights into the use of management accounting by small firms. They focus on the role of owner-managers who control the micro-world of the firm, critically evaluating and filtering through their personal perceptions the information and systems entering from the external world. This finding is consistent with the research of Ng et al. (2013), which showed that the extent and nature of management accounting practices in small business are affected by owner-managers' motivation and education. The study highlighted that owner-managers' intuition and experience played a role in influencing pricing decisions.

Perren and Grant (2000) also recognise that a bridge-person, such as an accountant, can adapt information from the external world to make it more acceptable to the owner-manager. Although the authors do not spell this point out, it is implicit that a key lesson for SAPs is to address issues of how management accounting information can be presented to owner-managers in a convincing manner that is pertinent to the specific micro-world of the particular enterprise. This point concurs with Reeb (1993), who argued that accountants' training and ways of work lead them to suggest fixed solutions, that is to say, the provision

of generic non-customised information which is perceived as irrelevant by owner-managers.

That solution will depend in part on the internal resources of the enterprise such as leadership, yet as Mitchell and Reid (2000) point out, it is complex to provide information for small enterprises which are extremely diverse not only in size and business area but also vary widely in their managers' capacity to understand and use the information. Mitchell and Reid (2000) have also drawn attention to the lack of research on innovation and change in management accounting information within small enterprises. They rightly emphasise the challenge of researching where few resources are available to devote to management accounting and little expertise exists within the enterprise to pursue innovation in this area. Owner-managers who have worked with minimal management accounting will not have a full understanding of what could be provided and what they need. The answer to that will be shaped by the complex and uncertain environment in which the businesses inevitably operate. Thus Mitchell and Reid outline a number of issues about management accounting in small enterprises, but were not seeking to produce answers as to how SAPs could be used more widely.

Nandan (2010) has argued that SAPs need to be familiar with current management accounting techniques such as balanced scorecards, target costing and quality costing⁽²⁾. Professional accounting bodies need to ensure that SAPs are able to keep up to date with the changing needs of their clients regarding management accounting and not just on financial and tax advice. Important as this knowledge is, what is also required is a change in the approach and role of accountants in SAPs. Professional accounting bodies should also alert accountants as to how they can provide more relevant support to small

² Quality costing involves the analysis of the cost of ensuring quality and the losses associated with a failure in quality (Dale and Plunkett, 1999).

enterprises, including how to engage better with them. Hamilton's (2013) study suggests that the identity of accountants is shaped by many overlapping layers such as professional bodies, requirements of the discipline of accounting, the employing organisation and social factors. He argues that these factors along with training processes hugely influence the professionalization process of accountants. As Scapens et al. (2003) have argued, accountants need a better understanding of the broader environment of the businesses, including technology and operations, in order to become valued business partners (involving the closer integration of management accountants into the business in order to provide insight to managers making strategic and operational decisions; see footnote on p.18), taking on greater responsibilities and working closely with their clients. However, Scapens et al. (2003) do not address the key question of how trust can be created between accountants and owner-managers so that the relationship could lead to a fruitful partnership that creates value.

Trust has been important for people since ancient times. In the Rig Veda the rishi (the wise) in India invoked Trust (shraddha)⁽³⁾ as a divine cosmic force through mantras to emphasise the need for collaboration (Jamieson and Brereton, 2014). Rousseau et al. (1998) argue that trust develops through a relationship between different parties over time with the aim of reducing uncertainties. The concept of trust and its role in the economy is extensively debated in the literature of business and management (Nooteboom, 2002). Barney and Hansen (1994) perceive trust purely as an instrument to gain competitive advantage; Andaleeb (1992) sees the role of trust in terms of reducing transaction cost while for Achrol (1997) trust helps to limit opportunism. Albu and Albu's (2012) research

³ shraddhām prātarhavāmahe, shraddhām madyandinam pari,
shraddhām sūryasya nimruchi; shraddhe shraddhāpayeha nah.
Let us honour Trust in the morning, Trust near the middle of the day;
Trust at the setting of the sun; O Shraddha, may you make us trust in this world.
(Rig Veda, Shraddha Suktam, verse 5)

shows that small firms in developing economies do not trust accountants or the information produced by them. The term ‘trust’ is therefore used in a variety of ways and a universally agreed definition is not possible.

However, the evidence from management accounting literature on SMEs does suggest that trust provides a strong platform for the take-up of business advice and acts as a basis for the relationship between SMEs and SAPs (Gooderham et al., 2004; Blackburn et al., 2010). Crosby et al. (1990) argue that trust gets established over a period of time based on repeated interaction between the parties whereas the study by Gooderham et al. (2004) in Norway suggests that there is no direct link between trust and the duration of the relationship. Rather, his study highlights that a significant factor for using external accountants for business advice is the degree to which the owner-manager of the SME see the accountant as competent.

The research by Albu et al. (2016) identifies trust as a significant factor in stimulating demand for business advisory services from SAPs. Their study also points out that, although trust plays an important role in influencing owner-managers’ use of management accounting services from SAPs, the literature investigating the concept is sparse. The findings of their research highlight that trust is a key element in the relationship between SAPs and SMEs, but that it is not easy to develop as it depends on factors such as unchallenged perceptions in the mind of the owner managers about accountants’ expertise. Their research also reveals the need for training of SAPs to enable them to provide services which cater better to the needs of owner-managers. These more focused services would help increase owner-managers’ trust in accountants. Street and Webber’s (2016) global survey for IFAC reveals that SAPs’ revenues increased because of improved communication, which increased trust, allowing them to provide greater value to their clients. Their research also highlighted that the anticipated impact of issues concerning

trust and credibility of accountants over next five years was rated by the accountants who took part as highest in Central and South America (45%) followed by Europe (40%) and the Middle East (40%).

Blackburn and Jarvis (2010) highlight different dimensions such as ‘institutional’, ‘relational’ and ‘competence’ trust. Institutional trust of accountants derives from being associated with a profession that is regulated by the government whereas relational trust is developed through the repeated provision of services. Repeated services also allow owner-managers develop trust by assessing the competencies of the relevant staff in a SAP. Mayer et al. (1995) see trust in terms of trustors expecting a trustee to carry out an important task for them and being prepared to put themselves in a vulnerable position to allow that to occur. In addition to clarifying trust Mayer et al. (1995) highlight ability, benevolence and integrity as three characteristics of trustworthiness. Ability refers to the degree to which the trustee is able to deliver the good or service; benevolence relates to the trustee acting in the best interests of the trustor; and integrity involves the trustee adhering to a set of principles that the trustor finds acceptable. Kharouf et al (2013) position trustworthiness as a precursor to trust, arguing that retailers of services should signal their trustworthiness in order to build customer trust.

Strategic management literature using Barney's (1991) resource-based approach is also a popular framework for examining the relationship between SMEs and SAPs (Gooderham et al., 2004; Johnson et al., 2007; Blackburn et al., 2010). The resource-based approach using the VRIO framework identifies whether a firm's resources are valuable, rare and difficult or costly to imitate as well as whether the firm is organised to capture value using the resource. Blackburn et al. (2010) argue that SAPs can gain competitive advantage by developing trust since SMEs are more likely to buy services from those with whom they

have a good rapport. Equally, the advice of SAPs can be a valuable resource for SMEs, but trust is needed for that resource to be realised.

From the literature considered above it is clear that trust in various forms is important for enabling the provision of business advice to owner-managers by SAPs. The literature considers many different aspects of trust and its development. However, the key point which may be obscured in the variety of perspectives in the literature is that the nature of trust is dynamic. The specific aspects of trust that are relevant in a particular situation, as well as the most appropriate means of developing the trust, will depend on factors on both sides at that given time. The SAP staff need to demonstrate that they understand what the owner-manager needs and are trustworthy to deliver that. Equally the owner-manager needs to develop trust that the outcome of the service will be relevant, in line with the business's priorities and cost-effective. Trust and clarity of aim evolve during the interaction between the SAP and small firm. Even partners who have previously worked together need to reconfirm and re-establish the shared values in the current context. Trust is jointly created by owner-managers of small firms and SAPs in dialogue. That dialogue will take place in the light of existing perceptions and assumptions on both sides.

The exploratory study by Lucas et al. (2013) found that, to the extent that management accounting was done in smaller enterprises, it tended to be carried out by the owner-managers, resulting in significant opportunity costs to other areas of the business, such as marketing and product development. The study highlighted that owner-managers had a limited perception of accountants and had not realised the potential of using accountants in SAPs as business partners⁽⁴⁾. Owner-managers were reluctant to contract SAPs for

⁴ CIMA (2009) argues for the extension of the role of management accountants beyond the calculation of standard indicators so they are sufficiently aware of and engaged in the business to carry out a "collaborative role, supporting decision making as finance business partners" (CIMA, 2009). This is discussed further in section 3.2.0 of Chapter 3.

management accounting as they believed that by analysing data themselves they would have greater control over the business and get a better understanding of the data. Lucas et al. (2013) also found that SAPs had not been proactive in marketing management accounting services and that there was scope for educating the owner-managers and accountants in working together as business partners. This point concurs with McChlery et al. (2004), who argue that accountants need to be more proactive in offering management accounting to small firms. Lucas et al. (2013) also found that owner-managers' lack of trust of SAPs made them reluctant to share confidential information. As a result, Lucas et al. argue for better dissemination of the concept of a management accountant as business partner for small enterprises.

2.3.1 Identifying the Gap

One of the key issues standing out from the review in section 2.3.0 of the sparse literature since the 1980s is the need to establish the ways in which the management accounting services illustrated in section 2.3.0 can be fully exploited by small enterprises which do not have the resources for in-house accounting. At first sight SAPs would seem to be the solution but owner-managers have so far remained reluctant to use them for management accounting. Research to date has proposed a disparate group of reasons for this without providing a definitive explanation.

The research studies by Lewis and Toon (1986) and White (1983) focused solely on the actions of accountants but presented conflicting opinions over whether the issue was their lack of skills or their need to engage more with small businesses. In contrast, Fearn (1984) and Arnold et al. (1984) held the view that the problem lay with owner-managers whose limited view of accountants was responsible for the lack of take up. Chittenden et al. (1990), on the other hand, highlighted shortcomings on both sides but failed to address the ways in which these issues could be overcome. All these researchers have provided useful

insights into the lack of engagement between owner-managers and SAPs but have failed to provide a full explanation of the situation enabling a coherent solution to be proposed. It was not until seven years later that Kirby and King's (1997) research addressed the need to develop the relationship between owner-managers and SAPs, narrowing the credibility gap by changing the limited perceptions on each side. However, the small sample size of their quantitative survey reduced the generalisability of their findings.

Marriott and Marriott's (2000) qualitative study of small enterprises brought attention to managers' concerns over the cost of contracting SAPs for management accounting services, providing new detailed insights into the barriers to this approach which were lacking in Kirby and King's quantitative research, but its narrow focus on cost prevented it from further exploring the issues raised by Kirby and King. In contrast, Perren and Grant (2000) observed the need for accountants to take an active role in making information more acceptable to owner-managers, given the managers' role as a critical filter evaluating the information entering small enterprises. While this study provided insights into the micro-world of owner-managers, it failed to propose practical approaches to overcome low take-up. Scapens et al. (2003) addressed the gap in perceptions between accountants and owner-managers by stressing the need for accountants to develop a better understanding of their clients' businesses and to take on more responsibility in order to be seen as business partners. However, further research is still needed to map out how this close relationship could be achieved. On the accounting side Nandan's (2010) analysis urged professional accounting bodies to ensure that the training of accountants in the techniques currently needed by small enterprises alerts them to the significance of this area of work. The exploratory study by Lucas et al. (2013) concludes that SAPs could be more pro-active in promoting management accounting services through a business partner approach and that management accounting education for small enterprise executives could improve the performance of small enterprises by creating wider awareness of the business partner

concept. Such education would aim to change owner-managers' image of accountants, making them more willing to engage with SAPs for management accounting. The study by Lucas et al. (2013) also confirmed that smaller enterprises used management accounting techniques, but they were often carried out by the owner-manager, causing opportunity costs (in terms of management time) to other aspects of the business. These analyses by Scapens et al. (2003), Nandan (2010) and Lucas et al. (2013) echo back to Kirby and King's (1997) insight that the focus had to be on improving the relationship, mutual understanding and trust between owner-managers and SAPs, rather than on actions and inactions on one side or the other. Yet there is still a lack of understanding of the underlying factors which have allowed the barriers between the two sides to remain for so long.

The literature demonstrates the consensus that SAPs could be able to take on the role of providing management accounting services for those small enterprises which lack the resources to employ accountants; yet this has tended not to happen. The few research studies which have focused on management accounting for small enterprises have increased understanding of the complexity behind the low take-up. This is particularly the case with the emphasis in later years on the centrality of the relationship between owner-managers and accountants and the need for both sides to change in order to increase mutual confidence. In this way SAPs may come to be seen by owner-managers as a cost-effective way of obtaining management accounting information. However, the various research studies have produced a variety of often conflicting conclusions.

This review of the literature confirms the continuing relevance of Scapens's (2006) view that research on management accounting has focused mainly on large enterprises and that analysis of small enterprises is underrepresented. Small enterprises need to be able to make use of management accounting tools in order to promote sustainability and financial

robustness. Not only has the competitive environment for small firms changed markedly in this period but so also has the available technology. It is therefore necessary not just to fill in the gaps in the existing literature but also to update understanding of the reasons behind the current barriers which prevent the greater use of SAPs for management accounting.

The intractability of these barriers raises the question whether there may be fundamental differences between management accounting theory, which tends to be based on neo-classical perspectives, and the approach taken in practice in the management of small enterprises and SAPs. This is reminiscent of the findings of Lucas (2003, 2005) and Lucas and Rafferty (2008) with regard to costing for pricing decisions. These studies found that the costing was determined in ways that could be better explained by a framework based on old institutional economics (subsection 4.6.2 of Chapter 4) rather than neo-classical economics (section 4.3.0 of Chapter 4).

The lack of consistency in the findings of the research analysed above suggests that there would be insufficient commonality for a fully structured survey to be able to differentiate the reasons causing the barriers. These barriers are likely to have some common features arising from the general nature of decision-making in small enterprises and the frequently held perceptions of owner-managers as to what accountants could provide, but also to be based in the history of each enterprise, including the specific leadership. Similarly, the reasons why SAPs have not successfully promoted such a service depend both on the externally influenced assumptions that accountants obtain from their training and interaction with colleagues and on the personal attitudes and experiences of specific accountants. A fully structured survey would not be able to specify the variables sufficiently to be able to focus on the wide variety of interacting factors which have led to the barriers. On the other hand, qualitative studies using semi-structured interviews would provide insight into the unique context of small enterprises and SAPs allowing detailed

understanding of both the common and the specific factors impinging on the relationship between them.

In the light of these considerations, this research study has carried out in-depth case studies of both SAPs and small enterprises in order to obtain a clearer understanding of the barriers to greater collaboration between SAPs and small enterprises over the provision of management accounting information. The data has been analysed from a critical realist perspective, recognising that such collaboration results from the decisions and behaviour of human actors, but that human action is itself influenced and shaped by the interaction of multiple causal mechanisms and contingent structures which impinge on the actors. The study used semi-structured interviews to examine the degree to which management accounting information is used by small enterprises; whether such information is prepared by the owner-manager; the views of the owner-manager on contracting SAPs to provide management accounting information; the understanding and experience of the owner-manager concerning the usefulness of such information; the views of accountants in SAPs on appropriate management accounting information for small enterprises as well as how SAPs can provide that; and the views and concerns of both parties about a closer relationship between small enterprises and SAPs in order to use management accounting information to improve the financial robustness of the enterprise. The data has been analysed to evaluate whether the actions and decisions of both accountants and owner-managers could be best explained in terms of neo-classical economics with its emphasis on constrained optimisation by (bounded) rational actors, or whether it could be better explained in terms of the encouraging, inhibiting and constraining effects of institutions⁽⁵⁾.

⁵ The term ‘institutions’ has many meanings, but in broad terms it is used in this research as “settled habits of thought common to the generality of men” (Veblen, 1909, p.626), which shape and are themselves shaped by people’s behaviour. See section 3.6.0 of chapter 3.

In the light of this analysis, suggestions have been made on ways in which management accounting information could be made more available to small enterprises.

2.4.0 The Research Question

The project aims to examine the degree to which management accounting for small enterprises is carried out by the owner-managers and, given the possibly considerable opportunity cost resulting from that, to investigate the reasons for not contracting SAPs to carry out management accounting. It also aims to determine why SAPs are not pro-active in marketing these services.

The research therefore addresses the following research question:

What are the reasons behind the tendency of owner-managers of small enterprises not to seek services from SAPs to assist with management accounting; and could SAPs be more pro-active in promoting this service?

The objectives of the research are as follows.

1. To scope further the extent to which owner-managers carry out management accounting tasks in small enterprises and the opportunity cost involved in doing this.
2. To investigate the reasons why owner-managers of small enterprises tend not to contract SAPs to provide management accounting information.
3. To examine the involvement of SAPs with small businesses and their potential to perform a greater role in providing management accounting services.
4. To investigate the reasons limiting the promotion of management accounting services by SAPs to small enterprises.

5. To evaluate whether relevant existing theoretical frameworks could explain why SAPs are not providing management accounting for small firms and why small firms are not seeking such services.

Possible frameworks were considered as part of the project design (see Chapter 3). Neo-classical economic theory, old institutional economics and new institutional sociology were selected.

2.5.0 The Contribution of the Research

The contribution of the research can be summarised in three main sections.

1. The research makes a substantive contribution to management and accounting literature by the use of case studies within a critical realist perspective to develop an in-depth understanding of the nature of management accounting needs in small enterprises and the actual and potential role of small accounting practices in meeting these needs. In this way the research gives insight into the barriers preventing greater use of SAPs to provide management accounting information to small enterprises.
2. The research evaluates the extent and nature of management accounting in small enterprises, analysing how the actions of human individuals can be explained and elucidated by three existing theoretical frameworks: neo-classical economic theory, old institutional economics and new institutional sociology.
3. The study expands existing research on management accounting by bringing into focus the interaction between human actors and their structural context in shaping management accounting practices in small enterprises, particularly with regard to the barriers to greater use of SAPs. The case study approach illustrates the way in which the development of management accounting practices does not arise just from external economic and professional pressures, but is also partly path-dependent, varying from one enterprise to

another because of gradual evolution affected by the perspectives of key change agents within the enterprise concerning attitudes to accountants and other cultural attitudes as to how things should be done.

2.6.0 The Research Methodology

The relationship between accountants in SAPs and the owner-managers of small businesses is based not just on the costs and benefits for each side, but also on the interaction between the agents involved and the structural context in which they operate, including perceptions and judgements. Analysis of the reasons behind the barriers to greater use of SAPs for the provision of management information therefore needs to be informed by a theoretical perspective which can accommodate the interaction between multiple factors and accepts that the relationship between potential causes and an emerging event is complex, encouraged by some structures and inhibited by others. For this reason the research uses a critical realist perspective (Bhaskar, 1997) as considered further in Chapter 4.

In Bhaskar's (1997) view the existence of objects is independent of their perception by human beings. He argues that events can have multiple causes and be encouraged or inhibited by non-causal contingent structures. He further asserts that structures and causal mechanisms exist beyond what can be empirically observed and known (Bhaskar, 1998). Causal laws therefore express the tendency of events to occur rather than stating that they necessarily will occur. In addition the complexity of causal relationships may mean that the event may occur spatially and temporally displaced from the cause (Lawson, 1997). From a critical realist perspective, human behaviour may be shaped by causal mechanisms and structures, but is not determined by them (Sayer, 1992). Furthermore, while structures shape human behaviour, they can themselves be created or modified by human action (Archer, 1995). The adoption of critical realism in this research has facilitated the

development of understanding of how human behaviour can be shaped by structures and also recursively influence the change of those structures.

Existing research into management accounting in small firms is sparse and much of it dates from several decades ago. Up-to-date data does not exist on which to base a quantitative study. Even if a quantitative study were to be used in the future to extend the data to a larger sample, the immediate need is for research which draws on an understanding of the detailed interaction within the dynamic processes. A qualitative study has therefore been used to collect rich in-depth information using case studies with semi-structured interviews. The design was informed by understanding drawn from the study of the literature shown earlier in this chapter and the theoretical frameworks considered in Chapter 3. Themes were developed out of that theoretical understanding and used to draw out and organise relevant data from the interviews by means of thematic analysis.

Hence the research uses a case study approach, involving semi-structured interviews with owner-managers or other key managers and with accountants in SAPs, in order to obtain rich, detailed, qualitative data, which has been analysed thematically in terms of the theoretical understanding based on existing academic literature and theoretical frameworks.

2.7.0 An Ex Ante Approach

The Latin terms ‘ex ante’ and ‘ex post’ mean ‘from before’ and ‘from after’ a particular event such as a decision. The terms are used in a variety of ways in economic analysis, for instance whether an outcome is a prediction (ex ante) or what actually happened (ex post).

This research investigates the behaviour, perspectives and processes in SAPs and small enterprises with a view to increasing understanding of the level of use of SAPs to provide management accounting services. It is concerned with the reasons why managers of small firms or SAPs act in particular ways and their perspectives at the time. Therefore the focus

of the research is *ex ante* rather than *ex post*. For instance, an owner-manager might decline a management accounting service as not cost-effective. The research would assess whether that decision was based on, say, constrained optimisation (*ex ante*) rather than assessing whether the outcome turned out to be optimal (*ex post*).

2.8.0 Conclusion

In order to position this research, this chapter examines the economic and social significance of SMEs and their need for management accounting information. While medium-sized enterprises may have a specialist in-house management accounting capability, this is unlikely to be feasible for small enterprises. The locus of the research has therefore been narrowed to investigating how management accounting information can be made available in small enterprises, particular consideration being given to the potential of SAPs to provide such a service.

The sparse existing research makes clear that small enterprises have tended not to make use of SAPs in this way. Furthermore, the literature does not provide a consistent explanation of the barriers to the use of SAPs by small enterprises for the provision of management accounting information. This research has therefore been focused onto these barriers and a research question and objectives have been formulated. A research design was developed and qualitative data was collected using semi-structured interviews with key managers in small firms and accountants in SAPs. The data was analysed thematically from an *ex ante* perspective using the theoretical understanding developed from the literature considered in this chapter and the theoretical frameworks which are considered in the next chapter.

Chapter 3 – Literature Review Part 2

3.1.0 Introduction

Chapter 2 focused this research onto the barriers to the use of SAPs for the provision of management accounting information to small enterprises and examined the literature in that area. Chapter 3 now reviews the relevant theoretical underpinnings in the literature associated with understanding the structural context and reasons behind the development and maintenance of these barriers. For example, the tendency by the owner-managers of small enterprises not to use SAPs for this purpose could be based on well informed analyses by owner-managers of the costs and benefits of doing so; or on similar analyses by accountants in SAPs of the profitability of developing this area of their work. Such approaches would be consistent with the assumption in neo-classical economics of rational actors making (constrained) optimum decisions. However, this assumption cannot fully explain the behaviour described in the literature examined in Chapter 2 since it is also related to issues of differences of perspective and taken-for-granted assumptions between owner-managers and accountants in SAPs. These differences have led to a reduction in trust. It is therefore also necessary to consider behaviourally based theories and, given the generality of the barriers, particularly those theories concentrating on social behaviour involving many people rather than the specific characteristics of particular key individuals. The chapter therefore concentrates on sociological approaches rather than psychological ones (see section 3.4.0 of this chapter).

Before moving on to specific theories of behaviour, it is necessary to explore the ways in which management accounting is used. Section 3.2.0 now examines the purpose of management accounting, not just in terms of its instrumental role, but also the way in which it is sometimes used symbolically.

3.2.0 The Different Roles of Management Accounting

Management accounting has evolved from its origin in relation to cost accounting a century ago (Kaplan, 1984). More recently it has been defined as “concerned with the provision of information to people within the organisation to help them make better decisions” (Drury, 1996, p. 7). Ansari et al. (1997) argue that the role of management accounting is to provide operational and financial information to owners and managers for the purpose of planning, control and decision-making. In recent years the remit of management accounting has been expanded from purely financial information to include indicators of other key areas of a firm’s performance through the use of techniques such as the balanced scorecard in order to reduce the previous over-emphasis on financial indicators and so make a wider contribution to the maximisation of profit (Kaplan and Norton, 1996). Large companies have been extending the management accounting role by developing and deploying “finance personnel to take on a new collaborative role, supporting decision making as finance business partners” (CIMA, 2009).

However, this instrumental view that management accounting provides definitive information on which rational decisions can be based has come under challenge from theorists who have argued that management accounting may sometimes have a symbolic role (Burchell et al., 1980; Feldman and March, 1981; Hopwood, 1984; Ansari and Euske, 1987). It is therefore necessary to examine the instrumental role more closely before turning to the symbolic aspect.

3.2.1 The Instrumental Rational Role

Conventional wisdom in management accounting, as reflected in textbooks, is rooted in the neo-classical theory of the firm (Scapens, 1994) and so is implicitly based on the assumption that managers (and management accountants) are rational actors who compute optimum outcomes for maximising profit by calculating costs and benefits from complete

and certain information. However, the rational, instrumental approach forming the basis of management accounting textbooks may not reflect the practice within organisations (Kelly and Pratt, 1988). Earl and Hopwood (1980) observe that in situations where objectives are clear and there is a high degree of confidence in the predictability of outcomes, rational optimising decision-making could accurately describe business practice. However, in many situations the outcome of a decision cannot be accurately predicted as it is dependent on the interaction of many factors which cannot be perfectly known. In these uncertain circumstances managers make judgements relying on experience or rules of thumb. There is recognition within the management accounting literature that while optimal rational choices are assumed to occur in principle, there is still an acceptance that in practice rationality is bounded in line with the proposal of Simon (1957) that actors cannot analyse every possibility in full detail but instead adopt choices which meet certain minimum criteria. Management accounting can therefore help in establishing whether such criteria are likely to be met but the final decision may be based on judgements which take into account the uncertainty inevitable in both management accounting information and business outcomes.

3.2.2 The Symbolic Role

An alternative view describes the purpose of management accounting information as a signalling device to others in society (Feldman and March, 1981). While the symbolic purpose of management accounting is more likely to be adopted by managers in large organisations accountable to external stakeholders, it is still likely to occur to some degree in small enterprises to obtain legitimacy such as with banks and other sources of finance. It is used by owner-managers to signal to others inside and outside the organisation that they are engaged in rational decision-making processes and that they are accountable for their decisions. The symbolic purpose of management accounting recognises the firm's need to conform to nationally or supra-nationally agreed criteria and processes to gain an aura of

objectivity and rationality. The use of management accounting processes and information is therefore a way for managers to demonstrate they are adhering to acceptable methods. DiMaggio and Powell (1983) argue that conformity to the behaviour of successful firms in order to gain legitimacy can lead to isomorphism since acting differently from other firms can make a firm vulnerable to criticism (see subsection 3.6.3 of this chapter). Feldman and March (1981) observed that managers collected information for symbolic purposes though it had little relevance in assisting the decision-making process. The information acted as a protection against criticism and was used as proof for justifying the decision that had already been made in circumstances in which the information was ambiguous and uncertain. The observation by Feldman and March is clearly significant for large enterprises where there is a separation of ownership and control, but still has some relevance for small enterprises where legitimacy is an issue in areas such as obtaining funding with banks or other sources of finance.

3.2.3 Management Accounting, Ambiguity and the Unpredictability of Business Outcomes

Theorists such as Dykman (1981), Cooper et al. (1981) and March (1987) argue that the ambiguity and uncertainty inherent in business contexts prevent managers from determining in advance clear goals and possible routes to achieving them.

Ambiguity refers to a situation where managers at the time of decision-making have differing interpretations of the problems that they are facing because they cannot be sure of the meaning of the multiple changes that they are reacting to – these changes are ambiguous. Uncertainty on the other hand is associated with situations in which the circumstances in which an outcome occurs are different from those prevailing when the decision was taken. In the absence of clear goals and knowledge concerning the outcomes of alternative courses of action, managers act on the basis of learned behaviour. March (1987) challenges the assumption that goals precede action, arguing that decision-makers

choose actions that allow goals and possible routes to be clarified. Weick (1979) argued that the way in which organisations operate often seemed not to be goal-oriented, but consisted of following basic rules, which can be made to appear more rational when reviewed in the light of outcomes. As Cosmides and Tooby (1994) and Thaler and Sunstein (2009) argue, the human mind may not always logically analyse the pros and cons of a situation, but may instead make certain specific responses depending on the situation.

Kahneman (2011, pp. 20-21) refers to these two modes of thinking as System 1 and System 2: “System 1 operates automatically and quickly, with little or no effort and no sense of voluntary control. System 2 allocates attention to the effortful mental activities that demand it, including complex computations. The operations of System 2 are often associated with the subjective experience of agency, choice and concentration.” Kahneman argues that System 1 thinking is more prevalent than System 2 thinking even in situations where the formal approach is ostensibly based around System 2 thinking (such as would be the case in business decision-making).

In his view there are situations in which System 2 takes control, inhibiting the automatic processes of System 1, but mostly System 1 predominates, providing sources for the explicit conscious beliefs and choices of System 2. Subsequently when challenged, people may believe that they used System 2, or may claim to have done so in order to signal to other people that they behaved legitimately (see in this chapter subsections 3.2.2 on the symbolic role of management accounting and 3.6.3 on the significance of appearing rational to gain legitimacy). When there is ambiguity and uncertainty, it may be infeasible to achieve optimal results from the rational analysis of information. System 1 thinking is likely to be influential in actions based on ‘rules of thumb’, hunch or what feels right because of past learning such as the taken-for-granted assumptions of institutionalised behaviour as proposed in old institutional economics (see subsection 3.6.2 of this chapter).

Analysis of ambiguity in management accounting enhances our understanding of the reasons behind the adoption of the rational instrumental and symbolic approaches to decision-making. The previous section on the symbolic role of management accounting information clearly shows that such information may act as an important shield even in situations where the instrumental use of the information is limited. The instrumental role is more likely to be useful when there is greater confidence in the predictability of the business outcome under consideration and when the management accounting information is not significantly dependent on the starting assumptions of the calculations (Earl and Hopwood, 1980). The symbolic role comes into play when there is greater uncertainty in business outcomes and so a greater risk of an adverse outcome giving rise to criticism.

It is clear from the symbolic use of management accounting that the assumption of the superiority of the rational analysis of optimal choices does not fit well with rapidly changing business contexts where outcomes are unpredictable. This is further compounded by an implicit assumption within rational analysis theory: that goals can be completely determined before devising and implementing a strategy to achieve them.

It is possible that owner-managers and accountants in SAPs might have different perspectives on the unpredictability of business outcomes and therefore on the type of management accounting information seen to be instrumentally useful by the two groups. One factor which this research therefore needs to explore is whether these differences of perspective contribute to the barriers to the greater use of SAPs. Both groups may be making rational choices to maximise the profit of the small enterprise from the options as they perceive them to be, but the choice that appears to be optimum may differ between the two groups. Furthermore, it is important to investigate whether management accounting information, based on the neo-classical assumption of rational choice between clear options, fits well with the need to make decisions in the circumstances that small

enterprises face; whether goals and clear alternative routes are sufficiently well known in advance for predictive management accounting to be useful or need to emerge more gradually; and whether assumptions by each group about the other on these issues exacerbate the lack of mutual trust.

This illustrates the point made in Chapter 2 that in order to understand the barriers, it is crucial to investigate in detail the internal and external structures which shape the behaviour of these two groups of human actors (see also the subsections on critical realism in Chapter 4). Some of the structures will be unique to the individual and so cannot be generalised, but others, even though internalised by the individual, will reflect perspectives common to the group arising from shared influences such as professional training, journals and interaction with other members of the group. Many of these perspectives will have the form of taken-for-granted assumptions (discussed under old institutional economics in subsection 3.6.2 below); while others will be more conscious attempts to maintain legitimacy in the eyes of the group, a key theme in new institutional sociology (see subsection 3.6.3 below).

The chapter will now review the theoretical approaches used in the literature on management accounting for small enterprises.

3.3.0 Neo-classical Economic Theory

Several authors, including Neimark and Tinker (1986), Kelly and Pratt (1992) and Hopper and Powell (1985) have pointed out that management accounting's conventional wisdom as represented by, for example, the leading textbooks, has mainly been influenced by neo-classical economics. Scapens (1994) argues that conventional wisdom in management accounting derives in particular from the neo-classical theory of the firm, which led to management accounting techniques implicitly based on the goal of profit maximisation.

The neo-classical paradigm seeks to create a framework for understanding the effects of allocating scarce resources between competing uses. The paradigm draws heavily on assumptions of economic rationality and market equilibrium. Economic actors are seen as atomistic individuals seeking to maximise their utility, choosing their course of action by engaging in rational optimisation⁽⁶⁾ (Ryan et al., 2002). Neo-classical theory further claims that an economy will be at its most economically efficient if it is both allocatively efficient (when resources are allocated to produce goods in the form and quantity desired by consumers) and technically efficient (when least inputs are used to produce outputs) (Tian, 2009).

Furthermore an economy is believed to tend to an equilibrium involving optimum economic efficiency if firms operating in circumstances of perfect competition maximise their profits by setting output at a level where a product's marginal cost and marginal revenue are equal (Blaug, 1992). Neo-classical economists recognise that perfect competition is rarely possible, but hold that workable competition is a more realistic goal producing a close approximation in which market imperfections limit efficiency to the best a society can achieve (constrained Pareto optimisation) (Maxfield, 2007). However,

⁶ Rational optimisation refers to weighing the cost and benefit of available actions and choosing the optimum.

Greenwald and Stiglitz (1986) argue that economies with incomplete markets and imperfect information (in practice every economy) cannot generally be considered to be constrained Pareto optimal.

Neo-classical economics assumes that firms will act to maximise profits and that managers will act rationally in pursuit of this objective. From that perspective management accounting would be employed to facilitate an efficient allocation of resources consistent with maximising profits.

Firms engaged in profit maximising behaviour must decide the output level for production. The optimal level of output for maximum profit is achieved when a product's marginal cost and marginal revenue are equal as demonstrated in Figure 3.1.

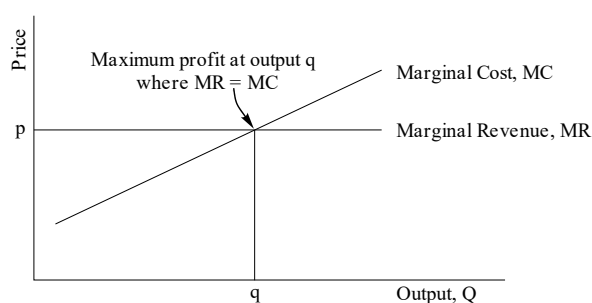


Figure 3.1: Profit Maximising Output, $MR = MC$ (source: author)

For illustrative purposes Figure 3.1 uses the simple example of a passive price-taking firm where the price charged for the product is accepted from the market so the marginal revenue for the product is the same as the market price regardless of the firm's output. The figure demonstrates that, if the firm's output is less than 'q', then the marginal cost of production at that output is less than the marginal revenue: each unit produced costs less than the revenue brought in by selling it. The firm's profit can therefore be increased if output is moved closer to 'q' so more units are sold. On the other hand, if the firm's output is greater than 'q', then the marginal cost of producing each unit will be greater than the marginal revenue brought in by selling it and the firm's profit will be reduced. Only at an output of 'q', when the marginal cost is equal to the marginal revenue, will the firm's profit

be maximised. In more complex situations the marginal cost and marginal revenue curves will not be the straight lines shown in Figure 3.1, but the same logic will apply that profit will be maximised at the output for which marginal cost and marginal revenue are equal. It is therefore essential that firms have a clear understanding of marginal cost and marginal revenue.

Management accounting is important for providing information concerning the most profitable and efficient allocation of resources, which would suggest that the expertise of accountants in SAPs might be welcomed by the owner-managers of small enterprises, and raises the question why SAPs are not more widely used for management accounting services. It may be that owner-managers, based on their experience of SAPs, calculate that the cost of using them would outweigh the benefit; or as Lucas et al. (2013) found, some owner-managers may prefer to extract management accounting information themselves in order to gain a better appreciation of the data, or to protect commercial confidentiality. On the SAPs' side, it is possible that strategic market analysis has convinced them that offering such services is not viable, perhaps because they are aware that owner-managers do not think the service is needed on cost-benefit grounds. All these potential explanations appear to be consistent with the neo-classical economic assumption of atomistic rational choice to reach an optimal solution.

However, it is also possible that such apparently rational choices may actually not be optimal. Owner-managers may be basing their cost-benefit calculus on a lack of understanding, or a false perception, of what SAPs could provide and of the cost. They may have made ad hoc requests to SAPs in the past which are likely to have been more expensive and less useful than if the data were already available in a planned way. The information produced by SAPs may not be useful for owner-managers, for instance it may be too generic rather than business specific. Accountants in SAPs may have

preconceptions of what owner-managers want, arising from stereotyped attitudes occurring among accountants as a group. These may affect accountants' profitability calculations or inappropriately shape the services which they offer. Owner-managers may also have stereotyped group preconceptions of accountants. As Chapter 2 made clear, a lack of mutual trust is a factor in the maintenance of the barriers.

Finally, it is important to consider the degree to which the context in which small enterprises operate is beset by uncertainty and ambiguity. This affects whether rational optimising behaviour is feasible when goals and alternative courses of action cannot be clearly determined as discussed in subsection 3.2.3 above. In fact it may be that the business environment in which owner-managers of small enterprises operate is very different from that assumed by the neo-classical economic framework on which management accounting textbooks and standard techniques are based.

Neo-classical economic theory came under criticism because of the growing acceptance of the view that absolute optimisation may not be realisable given bounded rationality (Simon 1957, see subsection 3.3.1 below) and also because of uncertainty, ambiguity and the cost or unavailability of information (Mattessich, 1980). Neo-classical economic theory is now seen as having accepted that absolute optimisation is often impractical or not cost-effective and that a constrained optimum has to be used (Ryan et al., 2002). For example a proxy might be used, such as a judgement arising from experience or a rule of thumb, if the cost of a full analysis would outweigh the benefit.

Even back in the 1950s Milton Friedman (1953) argued that the neo-classical assumption that profit maximisation arises from the equality of marginal cost and marginal revenue does not necessarily imply that firms explicitly use this approach to maximise profit. In his

view the proper purpose of positive economics⁽⁷⁾ was “to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields” (Friedman, 1953, p. 2). The essence of his argument, when applied to the marginalist calculus outlined above, is that firms would not survive in a competitive market unless they were maximising profit. However, neo-classical theory would still be upheld if firms were maximising profit by some other method, such as using experience or rules of thumb, that had the same effect as formally equating marginal cost and marginal revenue.

Friedman developed the arguments in his essay within a strongly positivist epistemology derived from the Humean assumption of definite direct relationships between causes and effects which can always be observed from the constant conjunction of events. This epistemology is challenged by the critical realist perspective used in this research in that events may arise from multiple causes and will be shaped by contingent structures, which may encourage the event or prevent it from occurring. Decisions and behaviour by human agents in small enterprises and SAPs will be constrained by the structures which exist within the context in which they act. That context will derive from three sources: the structures external to the SAPs and enterprises; historically based (path dependent) structures within the organisations; and, thirdly, the attitudes, perspectives and experience of the human actors involved. Such structures will be present in different forms and to different degrees in particular enterprises. The aim of the research is to understand what lies behind the barriers preventing greater use of SAPs for the provision of management information to small enterprises. That aim cannot be achieved without exploring the

⁷ On page 1 of his paper Friedman explains his use of the term ‘positive economics’ by citing John Neville Keynes’s definition of a positive science as “a body of systematized knowledge concerning what is [in contrast to] a normative or regulative science [which is] a body of systematized knowledge discussing criteria of what ought to be.”

structures that affect the behaviour of both SAPs and owner-managers and influence their attitudes to what information they see as appropriate. Even if the approach to management information taken by SAPs and by the owner-managers of small enterprises were each separately compatible, in Friedman's terms, with the profit maximisation assumptions of neo-classical theory, that would not ensure that they are compatible with each other and able to lead to a productive relationship between SAPs and small enterprises for the production of management information. The research therefore needs to investigate how the barriers arose and are sustained.

3.3.1 The Limitations of Neo-classical Economic Theory

The mathematical-deductivist approach of neo-classical economic theory has been criticised by Lawson (2003) as being responsible for the poor predictive performance of neo-classical economic theory in that it is inappropriate for the analysis of economic behaviour. Deductivism assumes that events can be explained by regularities (if 'a' happens then 'b' will happen) so that the same event would always occur if the conditions were exactly the same. Such an approach requires the system being examined to be closed⁽⁸⁾, whereas economic systems are inevitably open with a huge number of changing factors influencing the outcome. The Humean assumption implicit in deductivism that causes arise solely from the constant conjunction of events is not valid because of the contingent and multi-causal nature of economic events. As with the critical realist perspective discussed with reference to SAPs and small enterprises at the end of section 3.3.0 of this chapter, the behaviour of economic actors will be shaped by contingent structures which may encourage or inhibit their actions. Causal mechanisms will not inevitably trigger events, but will create tendencies for the events to occur. These

⁸ A closed system is one in which all relevant variables can be controlled or taken into account.

arguments have considerable power in that economic behaviour clearly does not fit well with the constant responses that might be expected from a closed system.

This idealistic view of economic actors as uninfluenced by social factors and capable of rapidly assessing all pertinent information has understandably come under considerable criticism. Simon (1955) pointed out the limits to an actor's ability to evaluate all pertinent information, arguing that rationality is inevitably bounded: as actors are unable to make a full evaluation, they decide in terms of sufficiency criteria, ensuring that the chosen action is satisfactorily close to what is required. This is particularly true in economics where information is often imperfect. However the acceptance by neo-classical economic theory of the concept of constrained optimality, as discussed in section 3.3.0 above, has largely overcome this criticism.

3.3.2 The Applicability of Neo-classical Economic Theory to the Research

As mentioned at the start of this section Scapens (1994) and several other theorists have argued that conventional wisdom in management accounting is largely based on neo-classical economics, so decision-making is assumed to be rational, based on perfect information and focused on maximisation of profit or utility, remaining free of social influences. From the issues raised in this review of the assumptions of neo-classical economic theory it is clear that these assumptions are open to strong challenge as a total explanation of the barriers preventing the greater use of SAPs to provide management accounting information to small enterprises. Furthermore, the neo-classical assumptions can be seen to be derived from an overly simple view of human behaviour in contrast to the critical realist perspective of this research, which investigates the causes behind the human behaviour leading to these barriers. Chapter 2 shows that a significant factor maintaining these barriers has been the lack of mutual understanding and trust between SAPs and owner-managers. Within a business partner relationship both groups would be

seeking to pursue the same goal of maximising the profit of the small business yet their behaviour would be based in different perspectives arising from their separate roles and the internal and external structures that impinge on each group.

It is therefore likely that the neo-classical assumption of atomistic rational actors making optimal choices will explain some of the behaviour in this research, but would be inadequate to fully explain all the barriers to greater use of SAPs for management accounting information in small enterprises, since these are based to some degree on trust, differences of perspective and taken-for-granted assumptions. Neo-classical economic theory is therefore one of the frameworks which will be used in the research. However, the issues considered in this section point to the need to also consider behaviourally based theories, particularly those which are able to explain behaviours and perspectives which have some commonality across different SAPs and small enterprises rather than being the result of specific non-generalisable characteristics of individual owner-managers and accountants.

3.4.0 The Applicability of Psychological Approaches to the Research

This research investigates the barriers preventing greater use of SAPs to provide management accounting information to small enterprises. It is clear from the previous section that neo-classical economic theory is inadequate to explain all aspects of the behaviour of owner-managers of small enterprises and accountants in SAPs or the interaction between them. In small enterprises owner-managers tend to have a very dominant role, directly making key decisions that would be decided by the board of bigger companies or delegated to staff at different levels of the hierarchy. The use and sourcing of management accounting information are just such decisions. A small number of individuals in SAPs also tend to be directly involved in deciding which services to market. However, the barriers which need to be investigated in this research are the symptoms of widespread patterns of behaviour across many enterprises. It is therefore necessary to concentrate on theoretical perspectives which cover common behaviour across many individuals. Such social regularities arise from rule-following (Outhwaite, 1987) and therefore need a sociological explanation rather than a psychological one.

In terms of the critical realist perspective used in the research the issue of common behaviour is not straightforward. The route from a causal mechanism to its resultant event, if it arises at all, is likely to be encouraged, inhibited or shaped by many contingent structures. For that reason enterprises which seem similar in terms of business sector, size and so on are likely to differ in behaviour in part because of contingent factors unique to the enterprise. Critical realists expect causal mechanisms to create tendencies towards certain events rather than assuming that there will always be a direct conjunction between cause and effect. Tendencies arising from common causal mechanisms are, however, likely to produce a degree of commonality between enterprises. So in seeking general explanations researchers need to concentrate on events with some degree of commonality, rather than those that are unique, but totally common behaviour would not be expected.

Furthermore, this research seeks to investigate whether such patterns of behaviour arise from rational, well informed actions to maximise profit or from other, often less explicit factors which may run counter to the maximisation of profit. The former could be explained by neo-classical economic theory, so it is the latter that are most likely to be elucidated by behavioural theories. It is also important to focus on behaviours which actors can choose to modify in order to reduce the barriers if they are preventing small enterprises from enhancing their sustainability and realising their potential.

The literature discussed in Chapter 2 shows a number of patterns of behaviour occurring across owner-managers of small enterprises and accountants in SAPs, so this chapter needs to examine theories that could give insight into common patterns of behaviour of this type. For instance, theories of normative isomorphism argue that patterns develop across groups of people because of professional training (see subsection 3.6.3.3 later in this chapter). It is therefore clear that the behavioural theories most relevant to this research are those elucidating social phenomena which influence the behaviour of many human agents, often without their awareness, rather than those theories focused on the psychology of individuals.

3.5.0 Structuration Theory

3.5.1 Introduction

Chapter 2 concluded that a better understanding is required of the barriers that have prevented accountants in SAPs and owner-managers of small enterprises developing a workable relationship, so that SAPs are able to provide management accounting information to small enterprises. The chapter raised the question as to whether the intractability of the barriers might stem from differences between management accounting theory, based largely on neo-classical economic theory, and the approach used in practice in small enterprises. It is therefore necessary to understand how the behaviour of these two groups of actors is shaped by structures present in their particular social contexts and how the interaction between agency and structure contributes to the barriers. The emphasis in Giddens's structuration theory on the interaction of structure and agency makes this theory an appropriate place to start examining these issues.

Structuration theory, developed by Giddens from a sociological perspective nearly thirty years ago, has been subsequently used by accounting researchers as a valuable alternative management accounting framework, allowing accounting to be understood in its social context (Roberts and Scapens, 1985; Capps et al., 1989). The need to broaden the scope of accounting research beyond positivist traditions had been recognised on the grounds that mainstream accounting research needed to be replaced by interpretive traditions (Boland and Pondy, 1983; Jönsson and Macintosh, 1997) paving the way for understanding accounting in terms of social phenomena (Cooper, 1980; Tinker 1980). Since then many accounting studies have been launched using structuration theory as an alternative stream of accounting research (Baxter and Chua, 2003; Macintosh and Scapens, 1990). Empirical research within management accounting (e.g. Scapens and Roberts, 1993; Jack, 2005; Collier, 2001; Soin et al., 2002) has been carried out drawing on Giddens's notion of "duality of structure" (Giddens, 1984, p. 28) as well as in studies conceptually oriented

towards structuration theory but developing on from it (e.g., Burns and Scapens, 2000; Dillard et al., 2004).

3.5.2 The Introduction of a Duality Perspective into Accounting Research

Giddens's notion of the duality of structure was intended to focus attention on the necessary interdependence of agency and structure in which structures influence the behaviour of agents, yet are themselves modified by human actions. The concept therefore merits further examination to determine the degree to which it illuminates how the interaction of agency and structure contribute to the barriers to greater involvement of SAPs with small enterprises. Habitual images held in each of the two groups of actors about members of the other group act as structures which influence views about how beneficial co-operation with the other group will be. For instance, such views may covertly influence ostensibly rational cost-benefit analysis about whether using SAPs would be worthwhile.

The introduction of a duality perspective to the study of accounting research (Macintosh and Scapens, 1990; Roberts and Scapens, 1985) was a major development as it emphasised the recursive relationship between social systems and social structures (Giddens, 1984). Social systems consist of social practices which are reproduced in time and space, linked to specific subjects. On the other hand social structure refers to structural properties which allow social practices to be bounded within social systems (Giddens, 1984). Structures are abstract templates consisting of rules, resources and transformation relations that act as a guide for human action. Agents' interaction, drawing upon these structures, forms the base of the structuration process where social systems are produced and reproduced. The premise of the duality perspective is that structure and agent should not be seen as independent phenomena. Giddens sees duality of structure as "...the essential recursiveness of social life, as constituted in social practices: structure is both medium and outcome of

reproduction of practices. Structure enters simultaneously into the constitution of the agent and social practices, and ‘exists’ in the generating moments of this constitution” (Giddens, 1979, p. 5). Thus it is not possible to separate the actions of agents from structures as they are the medium and the outcome of practices. Scapens and Macintosh (1996) argue that duality of structure presupposes the idea of agents and structures.

3.5.3 The Limitations of Structuration Theory

Structuration theory’s stress on the recursive interaction of agency and structure in creating social order was an advance on those earlier approaches which considered only one or the other, but its concept of duality was criticised by Archer (1982) for failing to differentiate sufficiently how each domain comes into play. If the sterile debates of the past about structure versus agency were to be avoided, structuration theory needed to give a clearer explanation of how the two interact so that the roles of each can be assessed when particular situations are analysed (Archer, 1982; Barley, 1986). This limitation of structuration theory centres on the very area on which this research needs to concentrate, so reducing the theory’s explanatory power for the research. The research seeks to investigate how in the particular context of SAPs and small enterprises specific structures arose, are sustained and changed through human action; and how those structures shape the behaviour of agents.

Boland (1993) criticises structuration theory for viewing structuration from a distance, underplaying the role of actors as creators of meaning. He criticises it for not allowing the “knowledgeable purposive human actor to be seen who is involved in production and reproduction of practices” (Boland, 1993, p. 126). Furthermore, he portrays its organisational practices “as a monolithic set of structuring properties” (Boland, 1993, p. 126).

However, as far as this research is concerned, the contribution of structuration theory has been to provide and legitimate key concepts, which have stimulated other theorists to build on them to increase the understanding of management accounting by revitalising and developing other theories, particularly old institutional economics and new institutional sociology. Structuration theory's concept of duality has been taken forward by theorists such as Archer (1982) in her emphasis on how, in the social sphere in general, current structures arise from the past behaviour of human actors. Burns and Scapens (2000) explored the mediation between structure and human action within organisations while Dillard et al. (2004) showed how the structures external to the organisation impinge on it. By taking structuration theory forward through different forms of institutional theory they have begun to demonstrate ways in which structures shape the behaviour of agents in a reciprocal process of change.

3.5.4 Structuration Theory as a Precursor

Giddens's analysis of the interaction between agency and structure provided conceptual stimulus, triggering other theorists to move the ideas forward in specific fields such as management accounting, often by developing existing theories such as old institutional economics. His emphasis on the inseparability of agency and structure was a point well made but as Archer (1982) pointed out, practical research in this area needs to tease out the role of each within particular situations. This research needs to investigate the specific, although interacting, effects of agents and structure in producing and maintaining the barriers to greater use of SAPs. Interpretative schemes can create common understanding and communication, as management accounting terms and concepts do between accountants and owner-managers. Yet the reasons for the barriers are likely to lie in unrecognised, often informal, structures of signification which differ between the two groups; as well as in structures more related to domination and legitimation. Many, but not

all, structures promote stasis (the maintenance of the status quo); but agents carry out change. Seo and Creed (2002) point to how they do so (subsection 3.6.2.4 of this chapter).

All these concepts owe a debt to Giddens. Structuration theory has therefore been a significant precursor of the theoretical perspectives used in this research, but its contribution has been to stimulate developments in other theories that help to provide less abstract understanding of the concepts and so it has not been directly used in the research.

3.6.0 Institutional Theories

The three main strands of institutional theory which have impacted, to differing degrees, on management and accounting research are: new institutional economics (NIE), old institutional economics (OIE) and new institutional sociology (NIS) (Scapens, 2006). The philosophical underpinnings and assumptions of the various institutional approaches are examined here to contribute towards the selection of the most appropriate theories to address the research question formulated in Chapter 2.

In recent years institutional theory in its various forms has become an accepted choice in various disciplines of the social sciences (Scott, 2001). It emphasises the significance of social processes in the development of organisational structures and actions and considers such processes to be “historically grounded”, shaped over time by the changing contexts in which they exist (Dillard et al., 2004, p. 508). It focuses on the interaction between an organisation and its specific institutional context; how social norms and expectations affect the organisation and become embedded in its practices and style of operating (Martinez, 1999).

Institutional theory has become a dominant theoretical approach in organisation theory and can be adapted to many different circumstances, including the study of accounting practices within organisations (Dillard et al., 2004). Its power for management accounting research lies in its ability to facilitate the understanding of institutional change and how it may be resisted (Scapens, 1994). Furthermore it provides insight into behaviour which is inconsistent with neo-classical assumptions of individual rationality. Burns and Scapens (2000, p. 4) argue that although the approaches within institutional theory have different origins, they share a common view of the importance of the concept of ‘institution’. However there is no agreed definition for the key term ‘institution’ (Scapens, 1994) and it

may be used with different meanings in different approaches to institutional analysis (DiMaggio and Powell, 1991).

Veblen (1919, p. 239) argued that institutions are “settled habits of thought common to the generality of men”. Institutions were seen by Commons (1965, p. 3) as “shaping each individual”. Furthermore he suggested that “the individual with whom we are dealing is the institutionalised mind” (Commons, 1934, p. 73-4). The writings of both Veblen and Commons suggest that individual behaviour shapes institutions just as institutions shape and constrain individuals. In contrast North (1990:3) has defined institutions as “rules of the game ... or ... humanly devised constraints that shape human interaction”. Walton Hamilton’s definition of institution emphasises Veblen’s viewpoint that habits govern human behaviour. According to Hamilton (1932, p. 84) an institution is “a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people” (Hamilton, 1932, p. 84). However, the meaning of ‘institutions’ remains disputed and there is no unanimity in the definition of this concept.

3.6.1 New Institutional Economics

3.6.1.1 Introduction

In considering possible reasons for the barriers to SAPs providing management accounting information to small enterprises, section 3.3.0 of this chapter distinguishes between those reasons which could be seen as involving atomistic rational choice to reach an optimal solution and those that could not. Although new institutional economics shares the rational optimising assumption of neo-classical economic theory, it is being considered here because it refers to behaviour being affected by institutions, albeit the term is being used in a radically different way from in, say, old institutional economics (OIE).

The phrase ‘new institutional economics’ (NIE) was coined by Oliver Williamson in 1975 to distinguish it from the old institutional economics pioneered by Veblen and Commons. Coase’s seminal paper *The Nature of the Firm* (1937) and well known essay *The Problem of Social Cost* (1960) lie at the heart of NIE stating that firms exist to economise on transaction costs. NIE is a wide term covering a variety of economic approaches deriving from neo-classical economics. These approaches recognise that institutions play an important role, but hold that “determinants of institutions are susceptible to analysis by the tools of economic theory” (Williamson, 2000, p. 595).

NIE’s perspective on institutions derives from the neo-classical assumption of the utility maximising individual but adds that this is subject to constraint by institutions such as property rights. Institutions are “the rules of the game in a society” and “human devised constraints that shape human interaction” (North, 1990, p. 3). Institutions are considered as part of economic analysis because their effects are seen as reducing uncertainty for both individuals and society as a whole.

Fundamental to NIE is the assumption that the individual can be taken for granted. Lukes (1973, p. 73) argues that “individuals are pictured abstractly as given, with given interests,

wants, purposes, needs etc”. NIE rejects some of the assumptions that used to be common in mainstream neo-classical economic theory such as unbounded rationality, perfect information and zero transaction costs, but still holds to the assumption that individuals are self-seeking, attempting to maximise profit subject to institutional constraints. NIE assumes that individuals have incomplete information about unforeseen events and so incur transaction costs to acquire information while institutions with their norms, rules and enforcing regulations help to reduce risks and facilitate the exchange of goods in a safe environment. Both Williamson and Arrow acknowledge that NIE’s core is influenced by neo-classical economics. Arrow (1987, p. 734) states that NIE “does not consist of giving new answers to the traditional questions of economics – resource allocation and the degree of utilization. Rather it consists of answering new questions, why economic institutions emerged the way they did and not otherwise.”

NIE seeks to fill a gap that earlier traditional theories of the firm had failed to investigate. It explores the governance structures that influence economic activities within firms. A number of theoretical approaches has been developed from NIE including agency theory and transaction cost economics (TCE).

3.6.1.2 Agency Theory

While some of the concepts in agency theory such as the separation of ownership and control in big corporations were developed in the 1930s (Berle and Means, 1967), it was in the 1970s that the issues between principals, such as shareholders, and agents, such as their company executives, were developed into agency theory in its current form (Eisenhardt, 1989). Principals and agents may have different interests and principals may incur costs to ensure that agents act in the interests of the principals (Shane, 1998). Agency theory seeks to determine the factors that help to align the interests of principal and agent, increasing the efficiency of their exchange relationship (Eisenhardt, 1989).

Behaviour by agents against principals' interests tends to be grouped as either moral hazard or adverse selection (Jensen and Meckling, 1976). Moral hazard arises when the agent can act with impunity, not gaining from compliance or losing from risky actions (Kotovitz, 1987; Jensen and Meckling, 1976). Adverse selection can occur when information asymmetry between principal and agent allows agents to misrepresent their ability to do the job (Akerlof, 1970).

Agency theory has often been used to consider the effects of the different interests of shareholders and executives; or in areas such as franchising, the appropriateness of different forms of contract to minimise agency problems, such as by the use of commissions on work done.

In terms of this research, when owner-managers, the principals, use SAPs, the agents, contract issues will of course arise. The lack of trust in the relationship between the two groups could arguably derive from doubts by owner-managers about whether accountants in SAPs will competently deliver useful management accounting information. However, the research needs to investigate whether such doubts have a significant effect on creating and sustaining the barriers to greater use of SAPs. The contract issues covered by agency theory are outside its remit. Furthermore, agency theory works from the assumption of actors engaging in (bounded) rational choice to reach optimal solutions, so does not provide insight into behaviour where this does not occur. Agency theory has therefore not been explored further in this thesis.

3.6.1.3 Transaction Cost Economics (TCE)

TCE's primary assumption is that institutions are transaction cost minimising arrangements and that firms select governance structures that minimise the cost of transactions. Williamson (1975) proposed that markets and hierarchies provide alternative forms of governance for economic transactions.

TCE seeks to explain governance structures in terms of bounded rationality and opportunism within the context of economic rationalism (Williamson, 1975). Williamson (1985, p. 32) states that “[e]conomising on transaction costs essentially reduces to economising on bounded rationality”. Williamson seems to have taken bounded rationality to refer to the minimisation of transaction costs. His emphasis on cost indicates that he remains close to the conventional neo-classical concept of the agent as a maximiser (Hodgson, 1998). As section 3.3.0 concluded, this research needs to explore institutional concepts to explain behaviour which does not fit solely with optimal choice assumption of neo-classical economic theory. This thesis therefore does not explore TCE and other aspects of NIE in detail.

3.6.1.4 The Applicability of NIE to the Research

Both Williamson and North see institutions as constraints. Although North (1990) does refer to informal constraints, NIE does not explore the full subtlety of the informal constraints and encouragements on human behaviour that have been emphasised by recent proponents of OIE such as Burns and Scapens (2000). Hence NIE can be seen as building on neo-classical economic theory by introducing some recognition of how social constraints facilitate economic exchange. The term ‘institutions’ is used only in a narrow, limited sense. Despite slight reference to informal institutions by some authors within the NIE tradition, it does not consider institutions in terms of the path-dependent habits and taken-for-granted assumptions which shape human behaviour inside organisations. Its emphasis on economic factors leads it to ignore the political, social and cultural institutions that impact on the behaviour of agents in small enterprises and SAPs.

As such, the ways in which it has extended neo-classical economic theory do not help to explain the reasons for the barriers where neo-classical theory is weak. Examples of this are when owner-managers use non-optimal rule-following instead of cost-benefit analysis

(Lucas and Rafferty, 2008) or their analyses lack understanding of what SAPs could provide. Behaviour in SAPs and small enterprises can be influenced by stereotypical perceptions of the other group held by members of their own group. There is therefore no benefit in using NIE in this research as its explanatory power for the issues covered in the research is no greater than that of neo-classical economic theory, given that the latter has taken on board the effect of information cost by accepting that rational choice in economic behaviour may have to use a constrained optimum (see section 3.3.0 above).

3.6.2 Old Institutional Economics (OIE)

Section 3.3.0 of this chapter distinguished between those barriers to greater use of SAPs which could be seen as consistent with the neo-classical economic assumption of universal constrained optimisation and those that could not. Subsection 3.6.1.4 concluded that NIE could not help understanding of the latter group so this section now examines the degree to which OIE can do so.

OIE predates the other two institutional approaches, NIE and new institutional sociology (NIS). However, it did not surface in the accounting literature until comparatively recently (Scapens, 1994; Ahmed and Scapens, 2000; Burns et al., 1998). It was informed by early American institutionalists such as Veblen, Commons, Mitchell and Ayres (Ahmed and Scapens, 2000; Hodgson, 1988). Scapens (1994) argues that the overarching theme running through OIE is an opposition to the ontological and methodological assumptions of neo-classical economics. OIE challenges the core of neo-classical economics by rejecting its assumptions that human beings are purely rational, maximising, economic agents and that general equilibrium can be achieved by market forces. OIE theorists argue that the neo-classical assumptions are inadequate for understanding economic change and analysing the working of markets and the behaviour of individuals. Langlois (1986, p. 5-6) identifies three main themes of OIE as:

1. Concern over the profit maximisation assumption of mainstream economics;
2. The view that economic phenomena are the result of learning over time, which makes economic activity a dynamic process that should not be confused with movement from one equilibrium to another as conceived in neo-classical economics but that rather should be seen in an evolutionary sense;

3. Emphasis on the role of social institutions in understanding economic activity.

Economic activity does not arise just because of rational self-interested optimising behaviour, but is also shaped by a range of social institutions.

OIE authors Rutherford (1994) and Scapens (1994) argue that the behaviour of individuals is shaped not just by rationality but also by institutionalised routines. OIE emphasises a holistic analysis of an economic system rather than the priority given by mainstream economics to atomistic individualism (Gruchy, 1947, Myrdal, 1978). According to Gruchy (1984) OIE views economic systems as part of larger societal systems in which human beings are products of culture, influenced by and operating within an evolving cultural process. OIE regards economic activity as a sociological as well as economic phenomenon and is concerned with its relationship with social institutions. In this way, for instance, the assessment by owner-managers of whether to use SAPs for management accounting information may be based on habit, but, even if it is based on rational analysis, it may fail to produce an optimal solution because of a lack of understanding of what SAPs can produce or because owner-managers hold inaccurate perceptions about accountants arising from preconceptions common to the fellow owner-managers with whom they associate. On the other hand, perceptions deriving from accountancy training may cause SAPs to produce information which does not fit the needs of small enterprises if the business environment of small enterprises is different from the assumptions on which such training is based or if the training is restricted to technical issues such as tax and audit law.

Hodgson (2000) states five propositions to define the characteristics of OIE. Among these propositions, the single most defining characteristic that distinguishes the old from new is proposition five: “The notion of individual agents as utility maximising is regarded as inadequate or erroneous. Institutionalism does not take the individual as given. Individuals are affected by their institutional and cultural situations. Hence individuals do not simply

(intentionally or unintentionally) create institutions. Through ‘reconstitutive downward causation’ institutions affect individuals in fundamental ways” Hodgson (2000, p. 318). In contrast, Hodgson (1999) characterised NIE as an approach which, just like neo-classical economics, takes individuals and their wants as given and focuses on institutions primarily as constraints.

OIE rejects the optimal decision rules of neo-classical economics and is concerned with cumulative processes out of which economic activities emerge (Ahmed and Scapens, 2000). OIE also emphasises the significance of the cumulative nature of processes and changes. The notion of “cumulative causation” (Veblen, 1919, p. 70) is associated with the concept that technologies and economic systems can develop in ways constrained by their history. Ahmed and Scapens (2000) extend this idea to management accounting systems by emphasising that path dependency is more likely than optimal convergence so agreeing with Hodgson (2000) that the development of accounting systems is not determined by laws or fixed paths. For instance, the management accounting information offered by SAPs may differ from what is needed because it is shaped by neo-classical economic assumptions embedded in management accounting textbooks, which may not reflect the business environment in which small enterprises operate.

OIE sees institutions as integral to the analysis of processes of change (Ribeiro and Scapens, 2006). Such institutionalists reject the “static” approach to change favoured by the neo-classical tradition (Burns, 1999, p. 571). They attempt to explain change in “processual” terms (Burns, 1999, p. 568) teasing out how practices become routine over time and how new routines emerge replacing the established routines. Burns and Scapens (2000) argues that the process of change within an organisation is complex and dynamic and cannot be understood by approaches such as questionnaire surveys.

For the analysis of economic behaviour Gruchy (1990) emphasises the importance of studying the processual approaches that have developed through time. He states that to understand an economic system, it is necessary to investigate what has driven change within the system. In terms of this research, examining how the barriers originated will give insight into some of the institutions which are maintaining them. However, focusing solely on the past would limit the power of the analysis as some of the institutions have developed more recently.

OIE emphasises the significance of rule-based behaviour, recognising that individuals may have various reasons for following rules. For instance, ambiguity and uncertainty in the business context of small enterprises (section 3.2.3 of this chapter) make the rational choice of optimal solutions impossible in some situations so rules based on past experience have to be followed instead. The relationship between past actions and current rule-based behaviour is central to OIE (Burns and Scapens, 2000). It recognises the duality in the relationship between institutions and actions: institutions influence human behaviour, yet those institutions have been themselves created by past human behaviour. Furthermore, institutions create cognitive frames through which behaviours become institutionalised. So, when ad hoc reports obtained by owner-managers from SAPs were more expensive and less useful than they would have been if planned information had been collected, this might lead to the expectation that planned management accounting information from SAPs would also be poor value for money. Veblen (1909) argued that institutional structure and human behaviour are mutually reinforcing. Veblen and Commons recognised there is both “upward and downward” causation: individuals create institutions just as institutional structures mould and constrain individuals (Veblen, 1919, p. 243). OIE focuses on internal behaviour within organisations which shapes the rules, routines, values and expectations of that organisation. While this approach focuses on micro level behaviours, it fails to explore the external macro level factors influencing inter-organisational relationships.

3.6.2.1 Routines and Institutions

Burns and Scapens (2000) describe routines as patterns of thought used by groups of individuals while habits are personal. Individual actors function from habits and routines rather than pursuing purely rational choices, but that is not to deny that individuals have reasons for their actions (Boland, 1982; Giddens 1984, Burns and Scapens, 2000). As mentioned in Chapter 2, Kirby and King's (1997) analysis of the barriers to greater use of SAPs to provide management accounting information to small enterprises moved understanding significantly forward by stressing the importance of the different perceptions of SAPs and owner-managers and the need to build the relationship between the two groups. This is very much consistent with the OIE perspective that human behaviour is shaped by institutions. In terms of this research, contrasting institutions are likely to have been created by the different training, experiences and shared social perceptions of owner-managers and accountants in SAPs. Such institutions influence behaviour, although the individual characteristics of each person also play a part. It can also be seen that improving mutual understanding between SAPs and owner-managers would lead to modification of the existing institutions, the taken-for-granted assumptions that were influencing behaviour, and allow for the rebuilding of trust.

Burns and Scapens (2000, p. 6) define rules as formally recognised procedures in which "things should be done" and routines as "the procedures habitually in use" (p. 10), the way that "things are actually done" (p. 6). Rules and routines are based in a historic context in contrast to institutions, which have become detached from their historical origins, existing only in actors' way of seeing things, expressing "the way things are" (Burns and Scapens, 2000, p. 7). Burns and Scapens (2000) use insights from OIE to establish how budgeting routines emerge over time and become taken-for-granted assumptions in an organisation. Their study found that accounting practices could be seen to be institutionalised once they had become widely accepted within the organisation, thus becoming an inherent feature of

management control. Furthermore they observed the significance of organisational routines and institutions in moulding management accounting change processes. In a similar way, this research needs to investigate whether institutions have created and are maintaining the barriers to greater use of SAPs.

3.6.2.2 Burns and Scapens's Framework

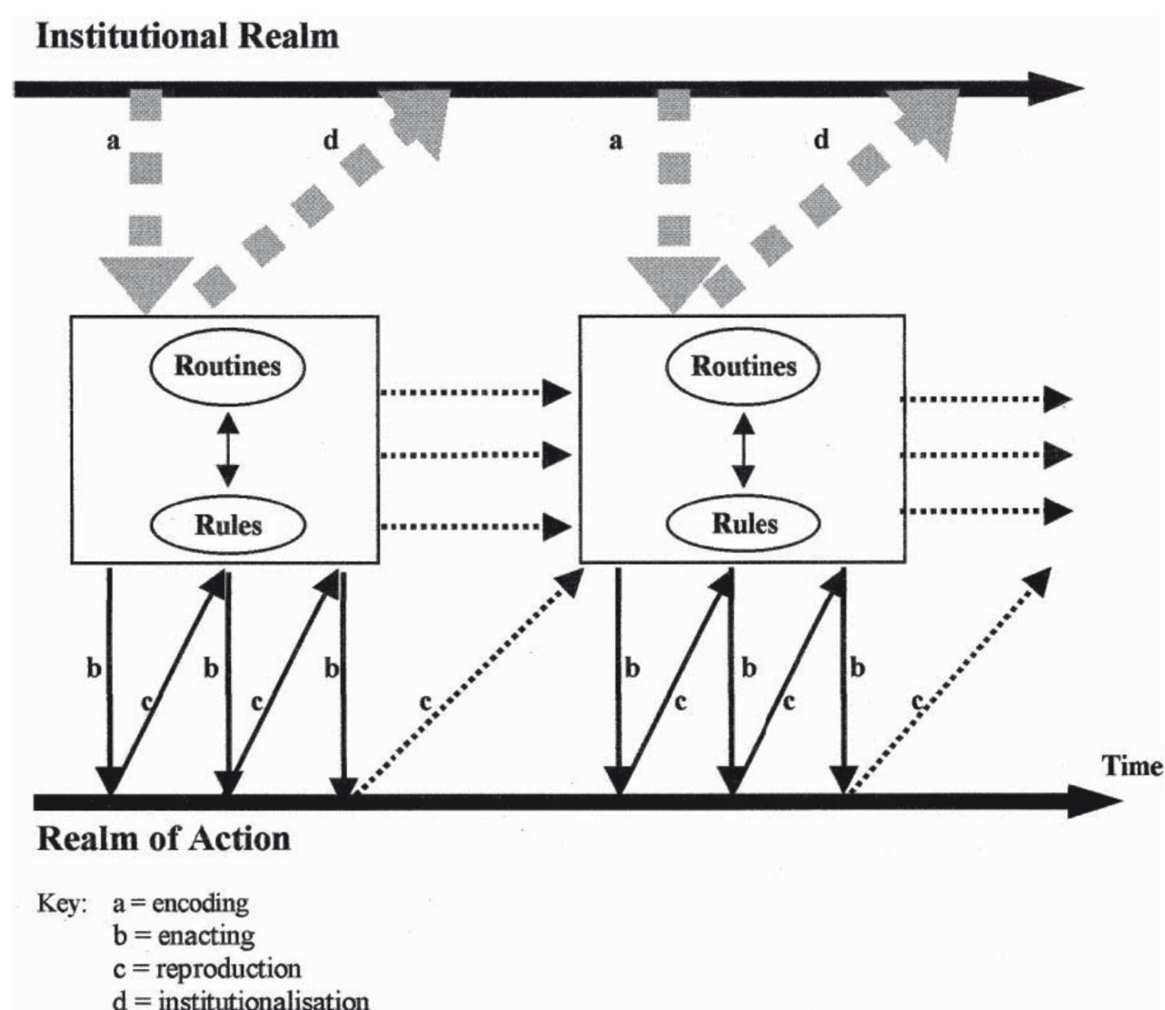


Figure 3.2: The Process of Institutionalisation (Source: Burns and Scapens, 2000, p. 9)

Burns and Scapens's (2000, p. 9) framework (modified from Barley and Tolbert, 1997 and shown in Figure 3.2) is intended to illustrate the nature of change processes to help interpret studies of change in management accounting. It involves synchronic and diachronic elements: "Institutions constrain and shape action synchronically (i.e. at a single point in time), actions produce and reproduce institutions diachronically (i.e. through their

cumulative influence over time). However, change processes in the institutional realm occur over longer periods of time than change in the realm of action” (Burns and Scapens, 2000, p. 9-10).

The diagram illustrates how rules and routines link the institutional realm and the realm of action.

The first process, arrow ‘a’, represents the encoding of existing institutional principles into new rules which will lead to the formation of routines. The encoding process draws on existing institutional values, meanings and taken-for-granted assumptions. The second process, arrow ‘b’, represents the enactment of rules and routines and may face some resistance if new rules challenge existing values. The third process, arrow ‘c’, represents the reproduction of the routine through repeated conscious or unconscious behaviour. The fourth process, arrow ‘d’, represents the institutionalisation of rules and routines.

The institutionalised routines become the unquestionable way of doing things, detached from their specific historical origin based in the interests of particular actors. They are seen instead as the way things naturally are. The institution is the accepted assumption that the routines embody appropriate behaviour. It acts as the blueprint for future rules and routines. Those new routines are local instances of the institution. If the institution is deeply embedded, it will be a powerful influence on actions or an inhibitor of change (Burns and Scapens, 2000). An example of this is Reeb’s (1993) view, mentioned in Chapter 2 of this thesis, that the training and ways of work of accountants lead them to propose non-customised solutions which tend to be seen as irrelevant by owner-managers. In this research the intractability of the barriers could also be seen as deriving from the power of existing institutions, not just in the habitual actions of accountants, but also in owner-managers’ perceptions of the information that accountants produce. On the other hand, the barriers could result from a well-based rational conclusion that the cost of the

information would outweigh its benefit, so being consistent with neo-classical economic assumptions as pointed out in section 3.3.0 of this chapter. It is therefore clear that possible consistency with one particular theory does not demonstrate that the insight from that theory is correct, emphasising the need to investigate in processual terms the path-dependent development of the observed behaviour.

Existing institutions shape the way change occurs (Bhaskar cited in Burns and Scapens, 2000) and may prevent new rules from becoming institutionalised. So from this viewpoint management accounting change can be seen as evolutionary (Nelson cited in Burns and Scapens, 2000), the processes of change being shaped not just by intentional action but also by random factors and the inertia caused by existing institutions. It is too simple to see such change as merely the outcome of the rational selection of the best choice. It is inevitably influenced by the historical development of institutions and so is “path-dependent” (Burns and Scapens, 2000, p. 13).

3.6.2.3 Old Institutional Economics, Stasis and Change

Once the significance of path-dependence is recognised, factors influencing change and stasis (the maintenance of the status quo) become relevant for understanding current patterns of behaviour. The previous section refers to the view of Burns and Scapens (2000) that deeply embedded institutions may inhibit change. Barley and Tolbert (1997) suggest that continuity of accounting practices may arise from successful resistance to attempted change. That is to say, stasis is not just the passive absence of change. Institutions can be active forces in favour of stasis. This research centres around longstanding barriers to the use of SAPs for management information. As mentioned in the previous subsection, these may arise because of rational well informed cost-benefit analysis, in line with neo-classical economic theory, or because of institutions such as habitual behaviour based on incorrect preconceptions by owner-managers or accountants in SAPs.

Some institutions, for instance those creating a habit of thinking in terms of innovation and improvement, can also oppose stasis and promote change. If an owner-manager were to become convinced that input from SAPs would be beneficial, then such institutions in favour of change would be likely to reduce the barriers. This raises the question of whether the barriers are maintained in part because of insufficient promotion by SAPs and whether accountants in SAPs have sufficiently sought to acquire further skills in appropriate management accounting information for small enterprises.

Burns and Scapens (2000) highlight three dichotomies established in the OIE literature which present insights into the processes of change in management accounting systems or practices. These dichotomies are useful in studying management accounting change. They offer methods of categorising and distinguishing between dissimilar kinds of change processes so change in management accounting has tended to be seen in OIE in these three ways (Burns and Scapens, 2000): formal and informal; revolutionary versus evolutionary; and regressive versus progressive.

Rutherford (1994) argues that formal change is an act of conscious design and occurs through the introduction of new rules. Nelson and Winter (1982) highlight the importance of recognising revolutionary and evolutionary change in management accounting practice. While revolutionary change is associated with major disruption to existing routines in institutions, evolutionary change involves only minor disruption to existing routines and is incremental in nature. Tool's (1993) concept of regressive and progressive change derives from the distinction between ceremonial behaviour (respecting existing power structures and hierarchies) and instrumental behaviour (which favours harnessing the best knowledge and technology that is available), a distinction further discussed in subsection 3.2.2 of this chapter.

3.6.2.4 Triggering the Agent to Change an Institution

The framework proposed by Burns and Scapens (2000) provides powerful insight into how institutions create routines and rules, which may themselves become institutionalised. It emphasises the interaction between agents and institutions, but nonetheless fails to demonstrate what triggers human actors to engage in change in praxis. Seo and Creed (2002) developed a framework (figure 3.3 below) describing institutional change in terms of interactions between institutional contradictions and human praxis. They identify four sources of contradiction: technical inefficiency, non-adaptability, institutional incompatibilities and misaligned interests. Technical inefficiency occurs where institutional attempts to gain legitimacy may reduce technical efficiency. The second contradiction, non-adaptability, refers to when institutional arrangements have become locked in and fail to adjust to change in external factors. Institutional incompatibilities arise when conformity to one set of institutional arrangements may conflict with other institutional settings. Misaligned interests occur when actors have differing interests and power relationships.

Such contradictions are necessary for change to occur but are insufficient on their own. Change occurs when agents respond to the contradictions by action, having reached a 'conscious change point' (Seo and Creed, 2002, p. 224). In Seo and Creed's view human praxis, although itself embedded in institutions, is essential for adapting those institutions and in the process reconstructing the actors' own existing social relationships and behaviour.

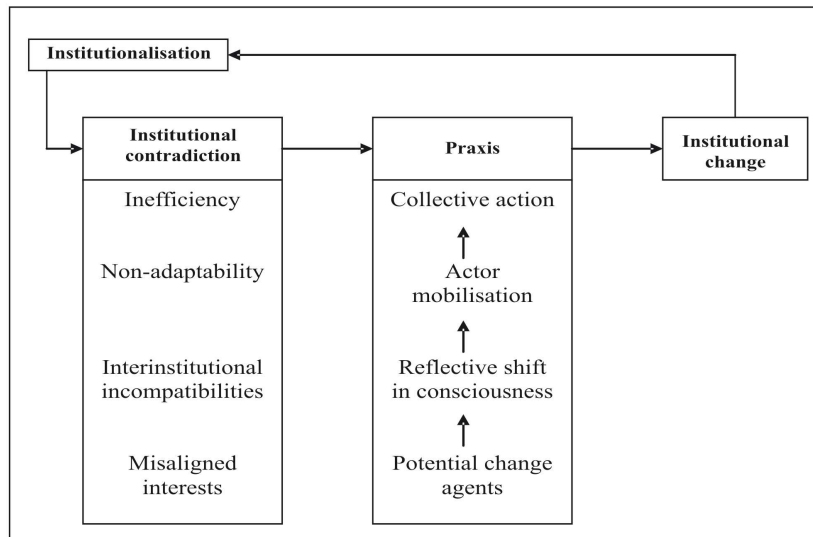


Figure 3.3: Seo and Creed's (2002, p. 232) Framework

3.6.2.5 Old Institutional Economics – Filling the Neo-classical Gap

Scapens (1984) points out the gap between the research evidence and the theory in textbooks on management accounting grounded in the neo-classical theory of the firm. Further research confirms this gap concerning matters such as the influence of qualitative factors on human behaviour (Kelly and Pratt, 1988). However, the real issue is not to recount that practice failed to follow textbook theory, but rather to study management accounting practice in its own right. Scapens and Arnold (1986) argue that the neo-classical theory of the firm was not appropriate for explaining managers' behaviour and Scapens (1994) proposes the use of OIE to focus on the institutionalised nature of accounting practice.

Burns's (1999) case study based on a processual approach using OIE demonstrates in a way impossible with a static neo-classical framework, how the dynamics of different forms of power influence accounting change and how barriers to change arise from the conflict between new accounting rules and existing institutionalised ways of thinking. Ahmed and Scapens's (2000) historical investigation into the socio-economic factors involved in the development and continuance of cost allocation practices demonstrates, using an institutional perspective, how practices which seem irrational in purely economic terms are

actually rational once institutional issues are taken into account. Their investigation uses an OIE approach in order to move the unit of economic analysis from the individual to the institution and contrasts their approach to the transaction cost economics of NIE, which remains grounded in the assumptions of neo-classical economics. Similarly, the focus of this research needs to avoid analysing the barriers to greater use of SAPs solely in terms of the independent actions of agents and to consider how the behaviour of owner-managers and accountants in SAPs is shaped by institutions; to make institutions the unit of analysis while still recognising that it is agents who act.

Ahmed and Scapens (2000) also contrast their work with the approach taken in NIS, arguing that the emphasis of NIS provides little exploration of institutional behaviour within organisations other than in terms of conformity. For Ahmed and Scapens the insights provided by OIE meant that their investigation demonstrates “the complex and changing framework of norms, working rules and institutional arrangements within which cost allocation systems came to function within industrial and social organizations” (Ahmed and Scapens, 2000, p. 159). Similarly, Lucas and Rafferty’s (2008) case studies seek to explain management accounting practices with regard to costing for pricing and conclude that much management accounting practice is not consistent with ex ante constrained optimisation but can be understood in terms of institutions from an OIE perspective.

So, while NIE remains largely embedded in a neo-classical perspective and, as far as activity within the organisation is concerned, the emphasis of NIS has been limited to legitimacy and conformity, OIE has proved to be a powerful alternative perspective to neo-classical economic theory for understanding economic behaviour within enterprises. As far as this research is concerned, the concepts of OIE can provide competing explanations of behaviour which at first sight would seem to result from the rational choice of optimum

solutions: the solutions may be less than optimal if they are based on institutionalised misperceptions by owner-managers or accountants. The analysis by owner-managers of whether management accounting information from SAPs is worth the cost may be skewed by incorrect assumptions of the benefit of the information. Similarly, because training or professionalization may lead to incorrect assumptions about what is needed, SAPs may not produce management information or what they do produce may be of less benefit than they think. When owner-managers extract their own management accounting information in order to protect confidentiality, that may be sound business sense, or it may relate to an institutionally based lack of trust. Lack of promotion of management accounting services by SAPs may stem from correct market analysis that such services would be unviable, or it may arise from incorrect perceptions by accountants in SAPs of the degree to which the market could be developed. Once the concepts within OIE raise these different possibilities, then data collection can be focused so as to indicate which is more likely.

Some behaviour can be interpreted as consistent with either neo-classical economic assumptions or OIE depending on what the investigation reveals. However, other behaviour may be explained weakly if at all in neo-classical terms, but become understandable once institutions and other structures such as power relations and the organisation's cultural attitude to change have been taken into account. Hence the concept of institutions in OIE gives insight as to why accountants in SAPs may continue to produce information seen as unhelpful by owner-managers because of traditions picked up in training or from fellow accountants. Similarly institutions may influence owner-managers not to approach SAPs because of perceptions about what accountants would produce. Ambiguity and uncertainty in the business context of small enterprises may make it infeasible to determine optimal ways forward so 'rules of thumb' and perceptions of what works in a particular organisation would have to be used instead. Such an approach seems

irrational from a neo-classical perspective, but is clearly in line with OIE's emphasis on rule-based behaviour.

The critical realist perspective in which this research is located fits well with the concept of institutions in OIE. As detailed in Chapter 4, critical realism emphasises the multifaceted and contingent nature of the route from causal mechanisms to consequent events, so accepts that such events may have multiple interacting causes and be shaped, encouraged or inhibited by a wide range of structures. Hence each organisation with its own path-dependent context may show different patterns, but causal mechanisms can be posited from commonalities across enterprises by retroductive⁽⁹⁾ reasoning from the perceived phenomena (Lawson, 2003). The critical realist perspective would therefore expect owner-managers and accountants to respond in ways that are partly unique to them and partly result from common structures such as the preconceptions of owner-managers or accountants arising from training and contact with colleagues in similar roles. Understanding of such structures can be achieved by seeking commonality across enterprises or SAPs.

3.6.2.6 The Limitations of Old Institutional Economics

OIE limits its focus entirely within organisations. It does not explore how the context of the organisation is influenced, and to some degree defined, by external social, political and economic issues and structures. Nor does it address the question of how those external structures are influenced by organisations. This is in contrast to the emphasis of NIS considered in subsection 3.3.6.3 of this chapter, where external structures are considered in terms of their effect on conformity in organisations.

⁹ The term 'retroduction' is defined in subsection 4.2.3 of chapter 4.

OIE's emphasis on the power of institutions and routines provides a more nuanced alternative to neo-classicism's emphasis on rational optimal decision-making by economic agents and provides insight into how actions by agents in the past create structures in the present that in turn influence the behaviour of agents. Its approach facilitates understanding of the factors creating and maintaining organisational practice, stability and encouraging or inhibiting change. OIE is therefore one of the theoretical frameworks which will be used in this research.

3.6.3 New Institutional Sociology (NIS)

Subsection 3.6.2.5 of this chapter notes that OIE does not cover the way in which an organisation is influenced and shaped by external structures or how conversely external structures are affected by the organisation. This subsection considers the extent to which NIS can fill that gap with regard to issues of conformity and legitimacy in order to give insight to this research as to how the barriers to greater use of SAPs for management accounting information may be affected by such external structures.

The theories put forward by Meyer and Rowan (1977) and DiMaggio and Powell (1983) have had profound influence in forming the conceptual foundation of NIS. The central tenet of this theory is that organisations adopt new rules and organisational models not for enhancing efficiency but to construct the organisation's image in accordance with society's expectations in order to gain legitimacy. Adherents of this approach argue that the role of institutions is to provide legitimacy, stability and continuity. NIS has much in common with OIE as it rejects the rational and efficient view of the world emphasised by NIE, rooted in the neo-classical school. Unlike the rational efficiency model, NIS contends that legitimacy is the main driver for much human action and argues that organisations adopt rules that are valued by society to seek legitimacy. Carroll and Delacroix argue that "[o]rganizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness" (cited in DiMaggio and Powell, 1983, p. 150). Arguably, small enterprises are unlikely to be seeking political power, but do sometimes seek social legitimacy by support for popular social causes as well as aiming to appeal to customers by expressing certain values such as environmental friendliness. However, the main focus of their need for legitimacy is in terms of complying with values which relate to economic fitness. It is also the case that there is some overlap between economic and social values within industrialised Western societies as demonstrated in Meyer and Rowan's argument that "modern Western society privileges a

particular form of rationality, and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality” (Meyer and Rowan cited in Dillard et al., 2004, p. 508).

NIS addresses the behaviour of organisations as motivated by the wider political, social and economic environment. Therefore this approach has been used in the study of management accounting by researchers to explain the role of these wider institutions in shaping organisational behaviour (Mezias, 1990; Covalleski et al., 1993). Furthermore, NIS claims that the success of organisations depends on the extent to which they encapsulate societal values (Ahmed and Scapens, 2000). Scott and Meyer (1983, p. 149) argue that institutional environments are “characterised by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy”. Thus, to receive continued support and be perceived as legitimate organisations in the eyes of external wider institutions, they make conscious efforts to conform (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Tolbert and Zucker, 1983).

Dillard et al. (2004) point out that in market capitalist settings the main value in which legitimacy is embodied is economic efficiency and endorse Meyer and Rowan’s (1977) point that organisations in Western societies will be seen as more legitimate if they exhibit the Western form of rationality. Hence, in terms of this research, small enterprises, when they are seeking finance from bodies such as banks, may need to demonstrate that they are pursuing economic efficiency and behaving rationally. This may lead them to use management accounting either instrumentally or symbolically as discussed in subsections 3.3.2.1 and 3.3.2.2 of this chapter.

NIS addresses two important concepts to explain organisational behaviour: ‘isomorphism’ and ‘decoupling’. Decoupling (Meyer and Rowan, 1977) occurs when formal

organisational structures are in conflict with actual practice. In essence, formal elements are not integrated into the organisation's operational processes. Meyer and Rowan (1977) point out that there is often inconsistency between the demand for efficiency and the desire to conform to ceremonial rules. Decoupling is evident in the symbolic use of management accounting by small enterprises, such as in dealing with financial organisations, and finds an echo in the OIE distinction between rules ("things as they should be done") and routines (the way that "things are actually done") (Burns and Scapens, 2000, p. 6).

Isomorphism refers to adoption of an institutional practice from other organisations operating in similar formal structures and institutional environments. Hawley (1968) developed early views of isomorphism, describing it as a constraining process where units of population facing similar environmental conditions forced other units of population to resemble them. Hawley's view has been further extended by Hannan and Freeman suggesting that isomorphism results "because non optimal forms are selected out of a population of organizations or because organizational decision-makers earn appropriate responses and adjust their behaviour accordingly" (Hannan and Freeman cited in DiMaggio and Powell, 1983, p. 149). Nevertheless Meyer (1979) and Fennell (1980) have emphasised two types of isomorphism: competitive and institutional. Competitive isomorphism emphasises market competition, assuming system rationality. On the other hand, DiMaggio and Powell (1983) emphasise institutional isomorphism to understand politics and ceremony that exist in modern organisational life. DiMaggio and Powell identify the isomorphic processes as consisting of three different types: coercive, mimetic and normative.

3.6.3.1 Coercive Isomorphism

Coercive isomorphism is a process that takes place when pressures are exerted on organisations formally and informally by other organisations on which they are dependent.

Pressure, which may be felt as force or persuasion, may also come from cultural expectations in society. An example is when funders require that certain processes must be carried out as a condition of a loan. Organisational change in some circumstances may be a direct response to a government mandate. Meyer and Rowan (1977) argue that as the dominance of states and large organisations expands over arenas of social life, organisations tend to reflect rules that have been legitimised and institutionalised by the state, resulting in homogeneous structures institutionalised around rituals of conformity to wider institutions.

3.6.3.2 Mimetic Isomorphism

Mimetic isomorphism is derived not from coercive authority but from uncertain environments providing powerful incentives for imitation. March and Olsen (1976) argue that uncertainty, poorly understood technology and ambiguous goals encourage organisations to model themselves on other organisations. This suggests that the existence of uncertainty and ambiguity in business contexts (subsection 3.2.3 of this chapter) may encourage enterprises to adopt the practices of others (including the symbolic use of management accounting) in order to help justify their behaviour when unpredictable outcomes later give rise to criticism. On the other hand, imitative behaviour at the time a business decision is made may seem by the time of the outcome to have been less than optimal. Mimetic pressures may therefore be able to explain actions which are not consistent with the neo-classical economic assumption of rational choice of an optimum solution.

Modelling may be the only viable solution that incurs little expense, especially when an organisation is facing problems with unclear solutions. Furthermore, organisations model themselves on other organisations operating in a similar environment to be perceived as more legitimate and successful. The adopted models do not stem from the notion of

enhancing efficiency but are credited for enhancing universality of processes within the organisation to gain legitimacy.

Kimberly (1980) argues that managers actively seek existing models from other organisations upon which to build. New models may be diffused from one organisation to another indirectly by the recruitment of experienced employees, or taken up directly through consultancy. DiMaggio and Powell (1983) note that there is very little variation available when selecting the organisation for modelling because of the prevailing homogeneity in the structures of organisations.

3.6.3.3 Normative Isomorphism

Normative isomorphism stems primarily from professionalization. Larson (1977) and Collins (1979) see professionalization as the collective struggle of members of similar occupations to control and define the conditions of their work in order to establish legitimacy. There are two aspects to professionalization. The first aspect deals with legitimating university specialists and professionals with formal education; the second is the spread of networks of professionals across organisations through which new practices and routines diffuse easily. Organisational norms are developed among managers and staff through the training provided by universities and professional institutions. These professional institutions create individuals who hold similar orientation and positions across different organisations, controlling and shaping organisational behaviour (Perrow, 1974). Hence accountants in SAPs may produce management accounting information which owner-managers see as unhelpful, such as being generalised rather than business specific, because of approaches developed in training or in interaction with fellow accountants. Similarly, owner-managers may hold assumptions about the usefulness of SAPs based on rules of behaviour and ways of working shared across the professional groups from which they come: those with a background in engineering, for instance, might

tend to show common patterns of behaviour such as emphasising product development rather than management accounting. It is possible that SAPs have not developed expertise in and marketed the sort of management accounting services which small enterprises require because such services are not normatively seen as within their ambit.

3.6.3.4 The Limitations of NIS

NIS has been criticised for failing to explain the circumstances under which agents influence institutional change (Beckert, 1999; Hensmans, 2003; Seo and Creed, 2002). Seo and Creed (2002, p. 224) criticise NIS for failing to answer: “when and how do embedded actors individually and collectively come to that conscious choice point – presumably, a point where they recognize the need, the opportunities, and the appropriate courses for collective action for changing existing institutional arrangements?”

Another problem with the approach of NIS is that it has focused on “convergent change” associated with new practices being diffused in to an organisation (Hopper and Marjory, 2007, p. 64). Although this has its importance, it overlooks how new practices emerge and sees organisations as ‘black boxes’ that conform to environmental demands to gain legitimacy (Perrow, 1986; DiMaggio, 1988; Greenwood and Hinings, 1996; Collier, 2001; Scott, 2001; Greenwood et al., 2002).

To summarise, while OIE focuses on the micro level only and so is incapable of explaining the inter-organisational pressures on the process of management accounting change, NIS is insufficient to explain intra-organisational behaviour because it focuses mostly on the inter-organisational level. NIS “is weak in analysing the internal dynamics of organisational change. As a consequence, the theory is silent on why some organisations adopt radical change whereas others do not, despite experiencing the same institutional pressures” (Greenwood and Hinings, 1996, p. 1023). Nonetheless, both OIE and NIS are

likely to be able to contribute to the issues being considered in this research as discussed in the next section.

3.7.0 The Relevance to the Research of the Theoretical Frameworks Considered

The focus of this research is on the barriers preventing the use of SAPs for management accounting support in small enterprises and so requires examination of the behaviour and structural context of both SAPs and the owner-managers of small enterprises. The research therefore needs to take into account the existence of economic factors as the driving force of small enterprises, but needs to examine the effect of the interaction of external and internal social factors and institutions on how that business is carried out.

Section 3.3.0 of this chapter examines the strengths and weaknesses of the constrained optimisation assumption of neo-classical economic theory with respect to this research into the barriers to greater use of SAPs for providing management accounting information to small enterprises. The section concludes that, while its emphasis on (constrained) optimal choices is likely to give insight into the behaviour and processes of small firms and SAPs, neo-classical economic theory cannot give a total explanation of the possible reasons behind the barriers. It is necessary also to take into account the social and institutional context within which economic agents act in small enterprises and SAPs. This thesis therefore also examines behaviourally based theories.

Section 3.4.0 points out that the research is looking for common patterns of behaviour across many individuals within small businesses and SAPs so these are more likely to be usefully explained by sociological theories rather than psychological ones.

The pioneering concepts in Giddens's structuration theory led to considerable research into the interaction between organisational and social factors in management accounting. Nonetheless, structuration theory has been criticised for not being sufficiently clear as to how the twin domains of agency and structure each come into play in particular situations. As far as this research is concerned, structuration theory's major contribution has been to

trigger renewal and development in other theories. Structuration theory has therefore not been used in this research in its own right (section 3.5).

As mentioned above, neo-classical economic theory is inadequate to fully explain the barriers to greater use of SAPs, based as these may be in issues of trust, differences of perspective and taken-for-granted assumptions as well as issues of ambiguity and uncertainty. NIE builds on neo-classical economic theory, extending it, but retaining the assumption of, albeit bounded, rational choice of optimal solutions. As far as the focus of this research is concerned, NIE cannot offer understanding beyond what would be gained from neo-classical economic theory, since the latter now accepts the effect of information cost in constraining optimisation (subsection 3.6.1).

OIE focuses on processes of organisational stasis and change and the role of agents in that. Hence practices by both accountants in SAPs and owner-managers may be shaped by institutions such as preconceptions about the practices of the other group. An enterprise's selection of new accounting practices may be driven by the intention to achieve greater efficiency and better cost control, as neo-classical economic theory would suggest, but the decision may also be influenced by pressures within the organisation. It is therefore able to offer explanations for some of those aspects of the behaviour of SAPs and small businesses which neo-classical economic theory fails to elucidate (subsection 3.6.2).

NIS on the other hand has tended to examine the social and political factors influencing the organisation. Its approach, like that of NIE, has mostly been to consider how enterprises are shaped by external forces, but it has illustrated that the organisation's response to the external pressures is in part to seek legitimacy within the institutional environment. This research makes use of insights provided by NIS in the development of the external framework to examine the taken-for-granted norms and practices at the political and social levels which influence, modify and eliminate existing management accounting practices in

small enterprises such as normative isomorphism arising from the professional training and backgrounds of both accountants and owner-managers (subsection 3.6.3).

It is therefore likely that some of the behaviour and processes revealed by the research could be explained by OIE and others by NIS. Using both these theories in the same situation does not lead to epistemological and ontological inconsistencies (Dillard et al., 2004) so both are used throughout this research.

3.8.0 Conclusions of the Literature Review

This chapter has provided an overview of the roles of management accounting and the main theories used to gain understanding of the issues related to the research question. The roles of management accounting covered in section 3.2.0 do not form a specific theory, but concepts such as the instrumental and symbolic uses of management accounting can help to explain the observed behaviour. They are also brought into the rest of the chapter when they throw light on the theories being discussed.

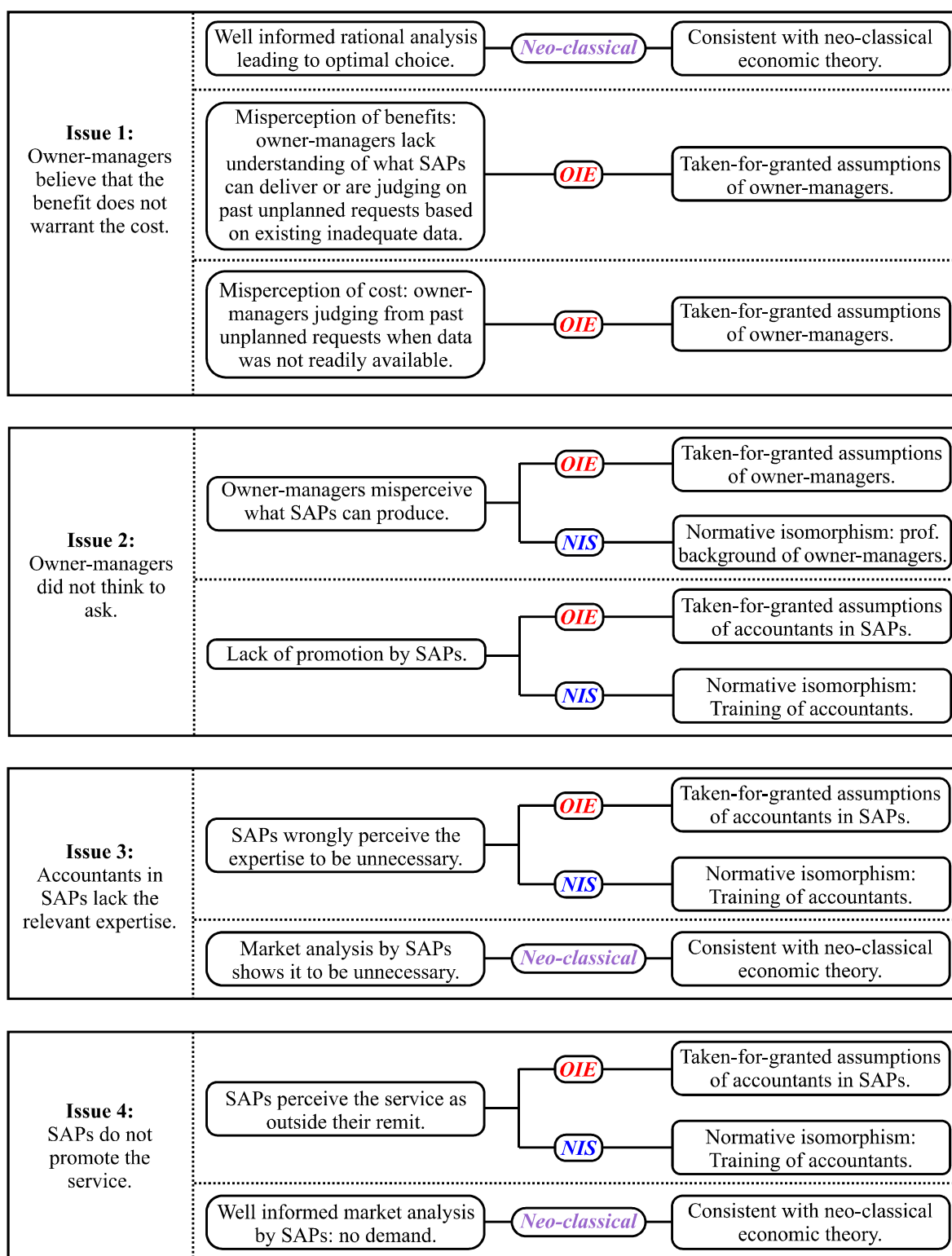
The three theoretical frameworks used throughout this research are neo-classical economic theory, OIE and NIS. These theoretical perspectives therefore shaped the design of the concrete research⁽¹⁰⁾ in the light of the issues drawn from the examination of the literature in chapter 2 from which the research question and research objectives were developed. The three theoretical perspectives also form the basis for understanding the causal mechanisms, structures and behaviour revealed in the empirical data.

Figure 3.4 overleaf illustrates how some of the issues drawn from the literature can be built into the research design by linking them to factors which could contribute to that issue.

¹⁰ In Sayer's typology (1992, p. 237) concrete research analyses in empirical terms in contrast to abstract research which analyses in theoretical terms.

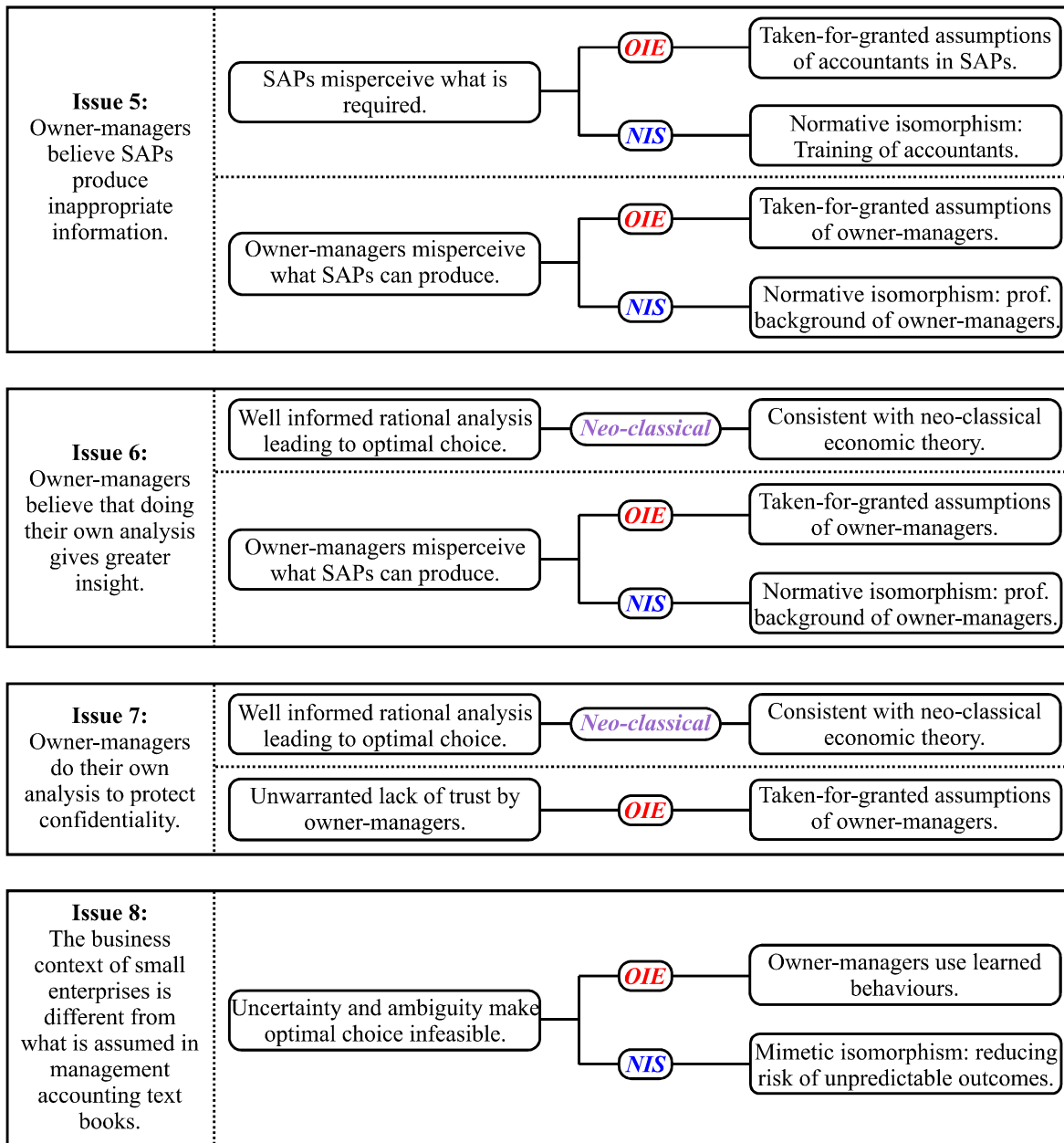
Figure 3.4: From Research Question to Theoretical Explanations (Source: author)

“What are the reasons behind the tendency of owner-managers of small enterprises not to seek services from SAPs to assist with management accounting; and could SAPs be more pro-active in promoting this service?”



Continued . . .

Figure 3.4: From Research Question to Theoretical Explanations (continued)



Each factor is then linked via one of the three theoretical frameworks to explanatory concepts based within that framework. So, to take the first issue in figure 3.4 as an example, owner-managers' belief that the benefit of using SAPs to provide management accounting information does not warrant the cost could be well informed rational analysis leading to an optimal choice, so consistent with neo-classical economic theory. On the other hand, the owner-managers' conclusion might be based on misperception of the benefits of using SAPs, arising from a lack of knowledge of what SAPs can deliver or the

limited usefulness of information from ad hoc requests to SAPs in the past, which, being unplanned, had been based on existing inadequate data. This is best explained by OIE in terms of taken-for-granted assumptions. A third factor could be misperception of cost based on unplanned requests in the past where the data was not readily available. This again is best explained by OIE in terms of taken-for-granted assumptions.

Figure 3.4 shows that neo-classical economic theory explains some of the issues contributing to the barriers to greater use of SAPs for the provision of management accounting information to small enterprises, but is inadequate to explain them all, such as the two factors illustrated in issue 2 in the figure. The review in this chapter of the literature on the theoretical perspectives has demonstrated not only that NIS and OIE can give significant understanding of the issues unexplained by the neo-classical theory; but also that they can challenge some of the neo-classical explanations as taking too simple a view as illustrated by issue 3 in the figure.

Figure 3.4 also demonstrates that, despite their different perspectives, NIS and OIE do offer some similar explanatory concepts. In issue 2 of the figure NIS's concept of normative isomorphism can equally be seen as OIE's taken-for-granted assumptions.

Hence it can be seen that both NIS and OIE offer explanations for which the rational choice assumption of neo-classical economic theory is weak or contradictory. Yet they also provide alternative explanations for behaviour which at first sight may seem to be consistent with neo-classical economic theory. Issues 4 and 6 in figure 3.4 illustrate that cost benefit analysis may produce an optimal result in line with neo-classical economic theory, but on the other hand, it may be distorted by misperceptions stemming from the common professional backgrounds of some owner-managers or the common training of accountants.

Figure 3.4 was developed as a tool to facilitate the design and data collection process for the research, based on the evidence from existing literature. It is not intended to be a report of the issues uncovered by the research. In showing examples of issues coming to light in chapter 2 and linking them with factors emerging from the theoretical frameworks, figure 3.4 demonstrates how the methodology arises out of theoretically based understanding of the data needed to meet the objectives of the research. That methodology is developed in the next chapter.

Chapter 4 – Research Design and Methodology

4.1.0 Introduction

This chapter outlines the approach to this research by examining the ontological and epistemological perspectives of major approaches to social science research. It provides justification for the choice of methodology and also discusses approaches to be employed in relation to data collection and analysis. Section 4.2 discusses the ontological and epistemological assumptions underlying the research philosophy and justifies the appropriateness of critical realism for the research. Section 4.3 considers the research design while section 4.4 outlines the methods for data collection. Section 4.5 describes the strategy for data analysis. Section 4.6 deals with ethical issues associated with the research.

4.2.0 Ontological and Epistemological Assumptions

Ontology relates to the nature of reality and is defined as ‘the claims or assumptions that a particular approach to social enquiry makes about the nature of social reality’ (Blaikie, 1993, p. 6). The two main approaches to understanding reality are objectivism and subjectivism. Objectivism holds that real objects exist independently of human perception, whereas subjectivism maintains that true reality does not exist independently of our perception. Epistemology pertains to the nature of knowledge and is concerned with how and what we know about reality (Crotty, 1998, p. 36). Ontological and epistemological assumptions are central to a research project as they guide research strategy and influence research methods. The following section discusses the ontological and epistemological assumptions of major approaches to social science research followed by the justification of the approach taken by this research.

4.2.1 Positivism

The key to positivism is that reality exists externally and that its properties can be determined by objective methods, rather than through subjective reflection. It entails an

ontology of an ordered universe existing objectively and made up of objects and events that are observable and discrete (Blaikie,1993, p.94). In epistemological terms positivism holds that valid claims to scientific knowledge arise from inductive generalisation based on observation (Bryman, 2008). Auguste Comte, a proponent of positivism, argued that “there can be no real knowledge but that which is based on observed facts” (Easterby-Smith et al., 2008, p.57). Kolakowski (1972) argues that positivists such as Comte, and in due course the logical positivists of the Vienna Circle, were faced with the challenge of replacing the investigation of reality based on metaphysical speculation with one of empirical commitment. Positivism with its commitment to empiricism and logical reasoning reached its height in 1930s and 1940s, stimulated by the work of logical positivists of the Vienna Circle (Halfpenny, 1982). However, logical positivism was challenged by Popper with his development of critical rationalism.

Critical rationalism shares positivism’s ontology, in which reality is independent of the observer and the world is structured and comprised of objects and events which can be described in terms of general laws. However, the epistemology of critical rationalism differs fundamentally from that used by logical positivism since Popper argued that a scientific theory could never be proved to be true but could be falsified by a single contradiction (Popper, 1972). He therefore proposed a more restricted view of possible scientific knowledge than had been adopted by the logical positivists and emphasised the uncertainty of such knowledge. Popper initially saw scientists, including social scientists, as operating not by amassing data to construct a theory by inference, as logical positivists held, but rather to use the data to falsify existing theories. However, he did later accept that scientists also use data to develop new theories (Delanty, 1997). Large scale quantitative studies, seeking to test theories or generalise the applicability of existing findings, can therefore be seen to be consistent with critical rationalism. So, while its emphasis on falsification fundamentally opposes the approach of the logical positivists, critical

rationalism can be grouped in a very broad sense with positivism because of its shared ontology and its acceptance of the validity of generalised data even though such data is inevitably separated from its specific context and so cannot be interpreted in the light of that context.

Hence positivism continues in various forms to challenge the validity of interpretative approaches in carrying out social science research (Easterby-Smith et al., 2008). One of the influences of interpretive approaches was the work of Kuhn (1962), who argued that scientific understanding was not a gradual accumulation of facts, each generation building on what had been already discovered, but that the understanding of data was shaped by the currently dominant theoretical perspective or paradigm. Contradictions to the dominant paradigm build up until it is replaced. The view that reality was universal was further challenged by anti-positivist theories which put emphasis on social reality as a construct of social actors. Schutz (1963) argues that the social world is not static but is continuously evolving so the laws of positivism cannot be applied to the social world. Lawson (2006, p. 17), a critic of positivism, states that ‘the laws ... of positivism cannot universally apply: patterns of behaviour can be changed by human action, which is both socially constructed, materially constrained and changes over time and space’.

4.2.2 *Interpretivism*

Interpretivism has been influenced heavily by the work of Ludwig Wittgenstein (Winch, 1958) and rejects positivism’s attempt to understand social phenomena by the application of methods from the natural sciences. The ontology of interpretivism is based on the assumption that social reality is a product of social processes and that social actors together produce and negotiate meanings for situations in the world around them. Interpretivism examines ‘how people make sense of their lives, how they define their situation, and how their sense of self develops in interaction with others’ (Jackson, 2006, p. 9). In the

interpretivist approach there is recognition that reality is subjective and complex. Social reality is dependent on how social actors interpret the situation they find themselves in and so researchers must recognise the bias involved in their own interpretations.

The epistemological assumption in interpretivism is that knowledge is a product of concepts and meanings influencing and conditioning the behaviour of social actors. The social researcher interacts with the social world to construct and re-construct the meaning of phenomena and so should be reflexive of the values conferred in shaping and presenting the findings. Hammersley and Atkinson (2007) argue that the most significant feature of social research using the interpretivist approach is to remain reflexive so that the essence of reality is not distorted.

A major criticism of the interpretivist approach is its inability to generalise findings to wider populations in that it is limited to understanding a particular situation or event.

4.2.3 Critical Realism

The core assumptions of critical realism were established by Bhaskar in his publication *A Realist Theory of Science* (Bhaskar, 1997) first published in 1975. Over the last century realism has been a general term for theories with an ontology (concept about the nature of objects) which asserts that objects exist independently of their being perceived or investigated (Lawson, 1997). Critical realism accepts that position for both physical and social objects, so has a realist ontology. However, it criticises empirical realists such as positivists for limiting the concept of scientific laws to the constant conjunction of events, which can only be true of closed systems, those in which in which all relevant variables can be controlled or taken into account (Bhaskar, 1997).

Even if experimenters hope to create closed systems, the world that science investigates is inevitably an open system, so universal scientific laws have to be ‘interpreted in a non-empirical ... way, i.e. as designating the activity of generative mechanisms and structures

independently of any particular sequence or pattern of events’ (Bhaskar, 1997, p. 14). The route from causal mechanism to an event is a complex system necessarily containing one or more causal mechanisms, but also contingently containing structures which shape, encourage or inhibit the event and may prevent it from occurring. Hence causal mechanisms do not inevitably lead to an event, or pattern of events, but to tendencies for events to happen. Furthermore, the complex interaction of causal mechanisms and contingent structures means that an event may emerge at a different time or place from the causal mechanisms or contingent structures (Lawson, 1998). Critical realists therefore argue that real structures exist independently of the patterns of events that actually occur; and events are independent of our experience of them. So the domain of the real is distinct from the domain of actual events, which is also distinct from the domain of the empirical, leading to a layered ontology (Figure 4.1) which is also structured in the sense that objects in the real domain cannot be reduced to the pattern of events in the actual domain (Lawson, 1997, p. 25).

	Domain of Empirical <i>Events as experienced</i>	Domain of Actual <i>Events, whether or not they can be observed</i>	Domain of Real <i>Structures or mechanisms that produce these events</i>
Experiences	◆	◆	◆
Events		◆	◆
Mechanisms			◆

Figure 4.1: The Structured Layered Ontology (modified from Bhaskar, 1997, p. 13)

The domain of the real consists of the processes and structures that generate observable events. The domain of the actual consists of events that actually occur and are independent of our knowledge of them. The domain of the empirical consists of our experiences of those events. Both physical and social events are products of the interplay between causal mechanisms and contingent structures (Bhaskar, 1998). Observable phenomena, in the actual domain, arise because of the underlying structures in the real domain and can be observed and fallibly interpreted in the empirical domain.

The critical realist epistemology is claimed to be subjectivist in that knowledge of reality is viewed as being socially constructed (Harré, 1986). Outhwaite (1987) asserts that the critical realist approach acts as a link between positivist and interpretivist standpoints. Furthermore, he argues that it is impossible to guarantee that a particular pattern of events will occur because the reasons for events are contingent and multi-factorial. Critical realism claims that social reality can be understood by investigating the relationships between observable effects, hidden generative mechanisms and the actions of the actors involved (Sayer, 1992).

Bhaskar and other critical realists (Pratt 1994; Sayer, 2000) have argued that the contingent nature of events makes it necessary to investigate the circumstances as well as the event in order to be able to analyse retroductively the underlying casual mechanisms and contingent structures⁽¹¹⁾(Lawson, 2003). Hence our understanding of the observed event can be strengthened by describing the hidden structures that exist in the real domain and play an important part in generating the event (Gibson, 1981). Bhaskar criticises the traditional Marxist structuralist position as overly determining the behaviour of human agents. Bhaskar (1998, p. 33) developed a ‘transformational model of social activity’ (TMSA) in which he proposes that structures condition social actors’ behaviour, but actors are not determined by them. Bhaskar (2011, p. 4) argues that: “Social theory and social reality are causally interdependent ... this is not to say that the social theorist ‘constructs’ social reality. But it is to say that social theory is practically conditioned by, and potentially has practical consequences in society”. Critical realists propose that scientific understanding of reality is fallible and open to change although they recognise the conditioning nature of social actors (Bechara and Van de Ven, 2011).

¹¹ “The form of reasoning that takes us from observations on phenomena at one level to hypotheses about their causes lying at a different one is retroduction.” (Lawson, 2003, p. 25) From the critical realist perspective, observations in the empirical domain of events in the actual domain lead the researcher to retroduct structures in the real domain.

4.2.3.1 The Limitations of Critical Realism

Bhaskar (1997, p. 10) developed critical realism as a contribution to the philosophy of science, acting ‘as the under-labourer of science’ by defining the foundations on which science can sit, justifying what science can plausibly make claims about. Many of the critiques of critical realism have therefore been technical responses questioning how well it succeeds in doing that, rather than considering how useful it is as an approach for actually carrying out natural or social science research. For instance, Hammersley (2009) sees the term ‘critical’ as linking the theory to critical social science, which in Hammersley’s view followed the teleological perspective of Hegel and Marx to social development, ‘drawing value conclusions from factual evidence’ (Hammersley, 2009, p. 2). Gunn (1989) sees no need in Marxist terms for philosophy to produce a higher order theory to underpin science and expresses the view that any attempt to do so would itself need a higher order theory, leading to an infinite series of higher order theories.

Bhaskar (1997, p. 16) argues that empirical realists such as positivists, in linking scientific laws to constant conjunctions of events are committing themselves to an ‘epistemic fallacy’ by limiting their concept of objects in the real world to those observable through patterns of events. In this way they conflate ontological issues of being with epistemological issues of knowledge (Lawson, 1997). However, critical realism is itself open to the charge of being based on an epistemic fallacy because it considers human knowledge to be fallible and so transitive while its realist ontology involves an intransitive real domain beyond direct knowledge⁽¹²⁾. Cruikshank (2004) argues that, if the ontology of critical realism can help explain social concepts such as culture, then it must be part of the transitive, changing development of knowledge rather than providing an intransitive base

¹² Bhaskar (1997, p. 17) defines an intransitive object as one which exists and acts independently of its discovery and interpretation. A transitive object is a piece of knowledge which is used to generate new knowledge and so its form and effect depend on how it is interpreted.

for that development. Ontology has become mixed with epistemology (Chalmers, 1988). For Cruikshank (2004) there is a risk that the ontology, instead of guiding how scientific understanding develops, might become trapped into the current Kuhnian paradigm by its link to current knowledge (see Kuhn in subsection 4.2.1 above in this chapter).

Critical realists view agency and structure as interlinked: the effect of a social structure depends on an agent's belief as to the purpose of that structure. King (1999) argues that this is contradictory because a social structure such as society is made of agents so cannot be separate from those agents. Yet this contradiction arises from King's own perception of a society just being the sum of its people. Bhaskar (2011, p. 145) argues in contrast that social structures like society are 'existentially intransitive', they exist independently of any agent's knowledge of them. Similarly, Lawson (1997) points out that it is the ability of social structures to enable or constrain actions that demonstrates that they are part of the real domain in the same way as invisible physical objects such as magnetic fields. Archer (1995) further develops the idea of a recursive relationship between agency and social structures by pointing out how the behaviour of agents in the past can become structures in the present, just as trading by merchants developed into capitalism which shapes the behaviour of current traders. In terms of this research the experience of owner-managers of small enterprises and accountants in SAPs shapes their views on how to act in current situations.

4.2.3.2 The Choice of Research Framework

This research is examining situations where the route from processes and behaviour back to causal mechanisms is likely to be complex. Critical realism clearly stands out in contrast to positivism or critical rationalism in its ability to do this, given its perspective that causal mechanisms lead to tendencies for certain events but not to the certainty that they will occur or that their occurrence will coincide with the causal mechanism in time and place.

Critical realism also emphasises that the contingent nature of the interaction of causal mechanisms and structures cannot be revealed without understanding of the detailed specific context.

This research therefore gains from the understanding of the “existentially intransitive” nature of social structures (Bhaskar, 2011, p. 145) which critical realism can provide (see subsection 4.2.3.1 above) in contrast to the purely transitive perspective of interpretivism. Critical realism is therefore the most appropriate framework to use in the research.

4.2.3.3 The Applicability of Critical Realism to the Research

The recursive interaction between agency and structure in human social contexts inevitably causes boundary problems for social scientific theories in that the objects of which social reality is made, such as culture or owner-managers, are structures and agents which shape the behaviour of agents and structures in ways that are not independent of limited, fallible human knowledge. Hence debates on the internal consistency of social scientific theories are unavoidable and unending. Critical realism is no exception, yet it provides a powerful framework for the design of social research and the analysis of the data.

As the Chapters 2 and 3 have demonstrated, the issues concerning the barriers to greater use of SAPs for the provision of management accounting, like many social phenomena, are multidimensional and involve a complex interaction of factors. The relationship between the owner-managers of small enterprises and the accountants in SAPs depends on the calculation on each side of the costs and benefits, but is also shaped by the perceptions of the agents and the structural context in which they operate. Analysis of the reasons behind the barriers therefore requires a framework which can allow for the route from causal mechanisms to events (such as the behaviour of owner-managers or accountants in SAPs) to be complex and influenced by many factors which may encourage, inhibit or prevent the event from arising.

In this research the objects of study are not only the internal perceptions of reality of owner-managers and accountants, but also structures which are external to those individuals such as the behaviour of other people and the business context. The focus of the research is on the effects of the interaction between agents and structures which are both internal and external to them. The research needs to be sensitive to and explore the social reality perceived by the agents, but their personal reality is only one part of what is being investigated.

4.3.0 The Choice of Research Design

4.3.1 Qualitative and Quantitative Research

Most management accounting research relates to large firms and, although small businesses make a significant contribution to the UK economy, their use of management accounting remains under-researched (Scapens, 2006). Past quantitative studies by a number of researchers on the provision by SAPs of management accounting to small firms (such as Lewis and Toon, 1986; White, 1983; Fearn, 1984; Arnold et al., 1984; Chittenden et al., 1990) have failed to provide convincing reasons for the low take-up of management accounting. Qualitative research (such as by Scapens et al., 2003; Marriott and Marriott, 2000; Perren and Grant 2000) has provided conflicting reasons. There is therefore not sufficient understanding of the factors responsible for the barriers and so variables could not be defined for a quantitative survey. Furthermore, a quantitative approach would fail to explain the behaviour involved in this situation because the underlying phenomena are complex and dynamic. For instance, academic literature, such as Kirby and King (1997) and Scapens et al. (2003), suggests the need to narrow the gap in expectations and understanding between owner-managers of small firms and accountants in order for the accountant to become a successful business partner. Factors that may be responsible at one time in one organisation may not be relevant in another organisation with a different set of structures (such as business context and the way the business is operated). Furthermore,

there is a need to understand the practices that exist in individual firms, some of which may have ongoing path-dependent, rule-following behaviour as proposed by institutional theories rather than solely constrained rational optimisation as assumed by neo-classical economic theory.

A qualitative research strategy has therefore been adopted for this research in order to capture the dynamic processes within each firm which quantitative approaches would not be able to achieve, given their assumption that the social environment is not influenced in different ways by the individuals and context in each case.

4.3.2 Perspectives in Qualitative Research

Several research perspectives can be identified in social research, relating to the qualitative approach, quantitative approach or a mixture of both. Qualitative research has three main perspectives for carrying out research which differ in their theoretical positions, methods for data collection and interpretation (Flick, 2009). The first perspective is anchored theoretically within the assumptions of symbolic interactionism and phenomenology. This perspective emphasises the subjective interpretations of actors and how understanding and the creation of meaning are jointly constructed in a specific context. It uses semi-structured or narrative interviews for collecting data, which is interpreted using content analysis, theoretical coding or narrative analysis.

The second perspective is drawn from the tradition of ethnomethodology and constructionism by focusing on the study of routines and practices within organisations through which order is produced. Ethnomethodology agrees with symbolic interactionism that meanings are produced in social interaction, but it differs from symbolic interactionism because of its emphasis on the fine detail of the interaction and the ways in which meanings are produced and transformed during interactions, whereas symbolic interactionism tends to focus on what interpretations are made. Furthermore,

ethnomethodology differs from symbolic interactionism in that it does not use interviews to capture the actor's point of view because it posits that the actor's view is sociologically irrelevant. In the ethno-methodological approach data is collected using participant observation as in ethnography or focus groups and the data is analysed using discourse analysis or conversation analysis.

The third perspective draws its concepts from the assumptions of genetic structuralism and is associated with psychoanalytic approaches. This third perspective posits that that reality must be observed in terms of how it comes into being historically, its genesis. It is based on objective-hermeneutic concepts, emphasising the significance of a data source in terms of its meaning in a particular community at a particular time.

These three perspectives are summarised in table 4.1 overleaf based on Flick (2009, p.457).

Table 4.1: Research Perspectives in Qualitative Research			
	Approaches to subjective viewpoints	Description of the making of social situations	Hermeneutic analysis of underlying structures
Theoretical positions	Symbolic Interactionism Phenomenology	Ethnomethodology Constructionism	Psychoanalysis Genetic structuralism
Methods of data collection	Semi-structured Interviews Narrative Interviews	Focus groups Ethnography Participant observation Recording interactions Collecting documents	Recording interactions Photography Film
Methods of interpretation	Theoretical coding Content analysis Narrative analysis Hermeneutic methods	Conversation analysis Discourse analysis Analysis of documents	Objective hermeneutics Deep hermeneutics

This research aims to understand the management accounting needs of small enterprises by focusing attention on how the interaction of agency and structure influence the behaviour of owner-managers and contribute to the barriers which inhibit greater involvement of SAPs in the provision of management accounting to such firms. Concepts held in the

minds of owner-managers of small firms and accounting practitioners in SAPs, influence the ways in which both groups can benefit from a co-operative, symbiotic relationship.

Symbolic interactionism takes into account the view of knowledgeable actors who are involved in the creation and reproduction of practices in organisations by allowing the researcher to capture the role of structures and causal mechanisms that exist independently of the actors, yet which influence their behaviour.

Genetic structuralism with its emphasis on an objective stance ignores the significance of the subjective understanding of reality which influences the views and actions of owner-managers of small businesses and accountants in SAPs.

Ethnomethodology, like symbolic interactionism, emphasises only the subjective approach of understanding reality. Ethnomethodologically informed ethnography involves detailed observation of people in naturally occurring settings so is not viable for this research since owner-managers of small firms find it a drain on their time to give even a one hour interview. They tend to be fire-fighting in very challenging situations and are often centrally involved in the direct activity of the business. It is highly unlikely that the researcher would be able to gain access to the owner-manager or the firm in order to carry out participant observation. A further reason limiting access for such an approach is confidentiality since the owner-manager may fear that details of the business may pass to a competitor. An ethnographic approach would mean that there would be time to study only one or two small firms, but to answer the research question, the research also needs the perspective of SAPs.

This research investigates the reasons behind the barriers to the take-up of management accounting services from SAPs. Therefore it is important to examine the interplay between actors and the internal and external structures which influence their decision making.

Symbolic interactionism using semi-structured interviews allows us to examine those structures that are acting as blockage to take up of management accounting in small firms and is therefore the most appropriate qualitative perspective to use for the research.

4.3.3 *Explanatory and Exploratory Research*

This research is initially exploratory in nature as it investigates the extent to which management accounting is carried out within small firms and the opportunity cost in terms of the owner-manager's time. It also explores the reasons behind the owner-managers' reluctance to use SAPs to carry out management accounting and the degree to which SAPs could be more involved.

Once this is established, the research becomes explanatory in that it assesses the degree to which the findings can be explained by one or other of the competing theoretical frameworks. The emphasis of the research is on studying a small number of cases in detail in order to discover the interactions between agency and structure in individual cases. In this way the findings are able to increase the theoretical generalisation of the frameworks (see subsections 4.3.4, 4.3.4.2 and 4.4.3). It is not claimed that the sample used is sufficiently representative of small firms and SAPs as a whole to provide statistical generalisation across the population. However, the tendencies or patterns emerging from the cross-case analysis of SAPs and small firms can be tested on a larger scale in future research. To that extent the research is exploratory.

4.3.4 *The Appropriateness of Case Studies to the Research*

Small enterprises are very variable, not just in size, industrial sector and function, but also because of the particular approach and characteristics of the owner-manager, who tends to be the dominant figure in influencing how the enterprise operates. SAPs are also small enterprises so may well vary according to the style of key people in them. The critical realist approach taken in this research fits well with research areas which have this

variability as it emphasises the importance of collecting the details of the context in order to be able to determine the underlying causal mechanisms and contingent structures involved in each setting (subsection 4.2.3 of this chapter). The research design therefore needs to be responsive not just to the common characteristics of small enterprises but to the specific context in which each enterprise operates and to allow the research to develop a detailed understanding of the subtleties of the interaction between the actors involved, the culture and institutions within the enterprise and the business environment in which it operates. For the reasons given in the following paragraphs, case studies are used to achieve this.

Case studies look in depth at single or multiple organisations or events. As an exponent of the case study method, Yin (2003) argues that although case studies are one of the best known methods in social science research, they have been vulnerable to criticism from positivist researchers on the grounds that they lack the rigour of natural scientific designs. Easterby-Smith et al. (2008) state that case studies do not allow generalisation to the overall population; and are open to interpretation from researchers. However, Yin (2003) responds to these criticisms by stating that “all case studies should have clear designs produced before any data is collected, and these designs should cover: the main questions or propositions, the unit of analysis, links between data and propositions, and procedures for interpretation of data” (Yin cited in Easterby-Smith et al., 2008, p.97). His concern was to demonstrate that case studies have the same degree of legitimacy and rigour as claimed by positivist studies. Halinen and Tornroos (2005) in defence of the case study approach argue that it allows the researcher to investigate events and phenomena that are not easy to isolate from their context. Lee (1989) recognises limitations in statistical rather than theoretical generalisation in using the case study approach but he defends the method as a powerful research strategy.

Because of the small sample sizes used, case studies are often criticised by positivists for their inability to identify statistically significant relationships between variables to assist statistical generalisation. Yin (2003) argues that adopting the single case method is appropriate when phenomena are under-researched whilst multiple cases are used to test or build a theory. However, the aim of such research using case studies is to provide in-depth understanding of context-specific observed phenomena rather than to provide prediction at an aggregate level.

The reason for using case studies in this research is to be able to use the detailed context-specific data to explain observed phenomena that emerge in particular circumstances. The intention is to provide theoretical generalisation by generating convincing explanations for observed behaviour using existing theories. These theories can be modified or rejected depending on the context. For instance, neo-classical profit maximisation behaviour, institutional isomorphism or rule-following behaviour can be used to explain specific behaviour in a range of cases. Yin (2003) argues that generalisation can be possible in the case study approach where the cases chosen have similar contexts. However, the aim of this research using a qualitative, critical realist, case study approach is to look for theoretical generalisation rather than statistical generalisation, by carrying out a detailed study of the phenomena observed in a 'bounded context' (Miles and Huberman, 1994, p. 25).

4.3.4.1 Internal Validity

For quantitative researchers validity is concerned with the degree to which the findings accurately describe reality (Hoepfl, 1997). The notion of reality for qualitative researchers is, however, more complex as it is based on the assumption that qualitative data is multi-dimensional and ever-changing. Furthermore, the researcher is trying to capture actors' constructions of reality. A number of strategies can be adopted in qualitative research to

increase internal validity. Triangulation is one of the most important strategies in case studies which are seeking explanatory outcomes as in this research. According to Denzin (1970), there are four types of triangulation: ‘data triangulation’; ‘investigator triangulation’; ‘theory triangulation’; ‘methodological triangulation’. In this research ‘data triangulation’ is used by collecting data from more than one respondent. For instance data from the owner-managers of small firms is triangulated with data collected from SAP managers. The research also uses ‘investigator triangulation’ where data and interpretation are checked with the respondents for accuracy. ‘Methodological triangulation’ is used in this research when data is collected using more than one method, such as when interviewing takes place using some structured and some semi-structured questions.

Internal validity has also been increased in this research through the use of other techniques aimed at minimising the distortion of observed reality by the researcher’s practice and interpretation, such as asking supervisors to comment upon the findings as they emerge and being aware of personal bias.

4.3.4.2 External Validity

Bryman (2008, p. 376) refers to external validity as the ‘degree to which findings can be generalised across social settings’. However, Atkinson and Shaffir (1998) point out that a case study approach should aim to develop or build theory rather than to produce data intended to be generalised to the population as a whole. As covered in subsection 4.3.3 above this research aims partly to explore the subject area providing evidence that can be tested in future large scale research, but is also explanatory in that it aims to examine the degree that existing theories provide explanations of the observed phenomena and so extend the explanatory power of those theories by applying them in a new context. This research therefore aims for theoretical generalisation. For instance, the NIS concept of normative isomorphism is extended when the research reveals that the background of

owner-managers can sometimes decrease homogeneity in management accounting practice rather than increasing it.

4.3.4.3 Reliability

In quantitative research, particularly from a positivist perspective, reliability tends to be conceived in terms of the ability of a research instrument to produce consistent results in repeated use over time. Subsection 4.3.4.1 shows that internal validity is more complex in qualitative research than quantitative. For similar reasons the quantitative concept of reliability given above is problematic for qualitative research, particularly from the critical realist perspective used in the current research since the path from a causal mechanism to a resulting event is encouraged, impeded or prevented by structures. A causal relationship is therefore indicated by a tendency for a particular event to occur rather than by certainty that it will always occur. Reliability is therefore more usefully seen in terms of ensuring that the research could be replicated rather than expecting consistent results.

To this end the processes used in the research have been clearly documented, specifying the manner in which it has been carried out, including the questions asked in interviews and the analytical processes. A case study protocol is presented in Appendix C which specifies in detail the processes used in obtaining and analysing data in this research. Interview transcriptions, field notes and company information were carefully stored in a database. The database will provide the basis for validating the findings. The intention of the catalogue is to provide details of documents so that an auditor or subsequent researcher could repeat the procedures.

4.4.0 Data Collection Methods

4.4.1 Consideration of the Applicability of Discourse, Conversation and Content Analysis to the Research

According to Potter (1997, p. 146) discourse analysis ‘emphasizes the way versions of the world, of society, events and inner psychological worlds are produced in discourse’. In

discourse analysis language is not only the means of understanding the social world but it also produces social reality. Discourse analysis is constructionist: emphasis is given to the reality portrayed by the people being investigated within their social setting. The depiction of reality is built up through their rendition. Discourse analysis is not considered for this research because it is anti-realist in orientation rejecting the concept of an external reality which is independent of the actors, but interacts with them and influences their behaviour. This is incompatible with the realist ontology of the critical realist perspective used in the research and with the investigation of the influences of the surrounding structures on the behaviour and perspectives of the actors. Bryman (2008, p. 500) criticises discourse analysis because ‘it denies that there is an external reality awaiting a definitive portrayal by the researcher and it therefore disavows the notion that any researcher can arrive at a privileged account of the aspect of the social world being investigated’.

Conversation analysis is also not considered appropriate for this research as its emphasis only on naturally occurring conversation means that it is less flexible than semi-structured interviews. It is inherently contextual as it locates understanding in the sequences of talk. It therefore does not take into account the complex interaction of actors with the underlying structures. Finally, as with discourse analysis, its non-realist ontology makes it inappropriate for investigating the barriers and structures which influence the behaviour of owner-managers and SAP managers.

Content analysis is a widely used technique in qualitative research and is based on interpreting meaning from textual data using coding categories derived directly from the text itself or from relevant previous research findings. Analysis involves identifying patterns, comparison or counting of keywords followed by the interpretation of the underlying context. One limitation of this type of analysis is that it is difficult to identify key categories when the subject area is under-researched or the research data is outdated

and conflicting as is the case with this research. This is likely to affect the accuracy of the coding structure as there is not complete understanding of the context so the perceived findings may not accurately represent the data. It is therefore not appropriate for this research.

Instead, the research involves an in-depth investigation using semi-structured questionnaires as the primary data collection instrument. The secondary data consists of company reports and publicly available documents on the internet sites of the cases investigated. The next section provides further details on the use of the semi-structured interviews.

4.4.2 *Semi-Structured Interviews*

Saunders et al. (2011) argue that the choice regarding the nature of interviews is informed by the research design and question. Interviews are classified as structured, semi-structured and unstructured. Structured interviews reduce the breadth of the data collection by preventing the interviewer from seeking clarification of issues raised and probing the answers given. When such structured questionnaires are completed without an interviewer present, questions may be interpreted differently by various respondents. On the other hand, Bernard (1994) argues that the reason for carrying out unstructured interviews is to initiate conversation and let it flow giving minimum control to the researcher. In that case key areas may not be covered. Sayer (1992) asserts that interviews informed by critical realism should be more interactive and less standardised in order to allow the interviewer to steer the interview to obtain a multi-layered understanding of the interacting structures present in a particular situation.

Semi-structured interviews are advantageous in situations where answers are ambiguous and a flexible approach is needed to clarify the responses of the interviewee. One common limitation of semi-structured interviews is that they can be time-consuming and expensive

if respondents are not based locally. Therefore it is essential to decide in advance on the number of people to be interviewed within the timeframe of the research.

The interviewing process is not entirely without difficulties. The interviewer should be aware of his or her personal biases and should refrain from knowingly or unknowingly influencing the response of the respondent. The following strategy has been recommended by Davies to assist interviewers: “Most important is to listen, then prompt and encourage when appropriate without ‘leading’, and to steer the discussion back on track if it appears to be heading down a less promising avenue” (Davies, 2000, p. 91).

In this research semi-structured interviews on the one hand enabled the researcher to obtain structured information to allow systematic investigation of the issues identified during the research design such as the relevance of the competing theoretical frameworks. On the other hand they allowed probing follow-up questions to be asked to owner-managers of small enterprises and accountants in SAPs to gain insight into the reasons behind the barriers preventing the use of SAPs to a greater degree, such as by the use of a business partner relationship. The in-depth interviews with owner-managers of small enterprises and accountants in SAPs led the researcher to identify various contextual factors that might be responsible for low use of SAPs. Interviews were undertaken after obtaining the consent of the participants. Appendix A contains the research project information and consent form which was distributed to participants.

4.4.3 *Sampling*

For the reasons given earlier in this chapter it is necessary to investigate small firms and SAPs in depth so the number of cases has to be kept small. The aim is to concentrate on theoretical generalisation and to identify and provide understanding of relevant factors, which can be tested over a larger sample cases in future research. It is not claimed that the sample used is representative of small firms and SAPs as a whole. The theoretical

frameworks being considered – neo-classical economic theory, OIE and NIS – cover the range of relevant business behaviour likely to emerge from constrained optimisation to institutional perceptions and behaviour. Busy key staff in these businesses are likely to be reluctant to give the time for interview and the researcher has no prior contacts in this field. Since the research aims to discover relevant factors rather than check the prevalence of known factors, the researcher in this situation, as Silverman (2000) has pointed out, has to accept what respondents can be found who are likely to reveal phenomena useful to the research. As Sacks has put it, ‘Tap into whomsoever, wheresoever and we get much the same things.’ (Sacks cited in Silverman 2000, p. 108-109). Given the complexity of the interactions between agents and structure in this research area, any relevant case will provide further information. Furthermore, such information can be analysed in terms of the theoretical orientation of this research, which ranges from universal constrained optimisation as assumed by neo-classical economic theory to widespread institutionalised behaviour as proposed by OIE and NIS. What is essential is that the choice of respondents is based on those who are likely to provide relevant data in terms of the objectives of the research and the concepts explored in chapters 2 and 3 above.

In broad terms this research seeks to investigate the underlying factors behind the barriers preventing greater use of SAPs to provide management information to small enterprises; and also to assess the degree to which the observed behaviour and processes can be explained by existing theories. Therefore both SAPs and small enterprises in manufacturing and service sectors were selected. The sample frame for small enterprises was based on the maximum-size criteria given in the definition of small companies set out in the Companies Act 2006 although the enterprises themselves are not necessarily registered as companies. (See Section 2.2.0 of Chapter 2 of this thesis for details). Eight small firms (3 of which were micro sized) and five SAPs were selected.

The firms cover a broad range of industrial sectors within services and manufacturing in order to reduce the risk of bias in the selection of cases which could otherwise influence the validity of the findings. The selection also aimed to be able to increase the explanatory power of the theories across a range of businesses. Generally the firms selected had been established for five to ten years. Interviews were carried out with the SAP managers and the owner-managers or other key staff of the small enterprises.

The research does not seek statistical generalisation and the range of cases chosen is seen by the researcher as appropriate to increase theoretical generalisation.

4.5.0 Data Analysis

A key aspect of the critical realist perspective is that the contingent nature of the interaction between causal mechanisms and other structures means that the resulting events are shaped by the particular circumstances on each occasion. Hence a causal mechanism has a tendency to lead to certain events rather than causing the event on every occasion. Whether events appear, or how they are shaped if they do appear, depends on the unique set of contingent structures present in a particular situation. However, it is possible for the researcher to pick up patterns deriving from tendencies by noting commonalities in the data. This research seeks to gain insight into the barriers to greater use of SAPs and so needs to be focused on such commonalities. A powerful technique for detecting patterns of this sort in the data is to analyse the data thematically and so this technique is used in this research. NVivo software has been used to assist with this analysis.

4.5.1 *Thematic Analysis of the Interview Data*

Thematic analysis shares core skills underlying most qualitative analytic methods. Several authors argue that the thematic analysis technique is not a method in its own right (Boyatzis, 1998; Ryan and Bernard, 2000) but can be used within other methods. Ryan and Bernard (2000) perceive thematic coding as a process which can be successfully used

within various analytical approaches. Thematic analysis allows the researcher to identify themes from the transcripts which capture the essence of phenomena. The flexibility offered by thematic analysis is a great strength because unlike discourse analysis or grounded theory it does not limit the researcher to a particular paradigm. According to Boyatzis (1998, p. 1) in thematic analysis ‘recognising an important moment (seeing) precedes encoding it (seeing it as something), which in turn precedes interpretation. Thematic analysis moves you through these three phases of inquiry’. Braun and Clark (2006) suggest that the process of analysis is not linear, but involves going back and forth through the raw data searching for codes and interpreting themes that provide explanation for the observed phenomena. In order to keep the analysis focused on the research question, the codes and themes clearly have to relate to the main theoretically based issues raised by the research question. For this research, which investigates the structural context and reasons why owner-managers of small enterprises tend not to seek management accounting services from SAPs, section 3.8.0 and Figure 3.4 in Chapter 3 illustrate relevant issues derived from existing research and link them to theoretically based explanations. Thus for example, a broad theme would be ‘owner-managers consider the benefit of the data from SAPs is not worth the cost’ and that would be broken down into sub-themes such as ‘well informed rational analysis leading to optimal choice’, ‘misperception of benefit’ and ‘misperception of cost’. Similarly a broad theme of ‘SAPs do not promote the service’ would have sub-themes of ‘well informed market analysis by SAPs, no demand’ and ‘SAPs perceive the service as outside their remit’.

Within this research the interview data was first structured by allocating relevant codes to sections of the interview transcripts. According to Robson (2011, p. 474) a code can be a ‘chunk of data ...exemplifying a theoretical or descriptive idea’. Once the codes had been identified the researcher started to organise the coded data into themes and sub-themes. Braun and Clark (2006) suggest that the researcher plays an active role in selecting data

and themes that relate to the research question. According to Boyatzis (1998, p. 4) a theme is ‘a pattern found in the information that at a minimum describes and organises the possible observations and at maximum interprets aspects of the phenomenon. A theme may be identified at the manifest level (directly observable in the information) or at the latent level (underlying the phenomenon)’. The analysis of the data in this research was carried out using the following six stage approach proposed by Braun and Clarke (2006, p. 87).

The themes used in the research are shown in Appendix C.

- **Phase 1 – Familiarisation with the Data**

The interview recordings were transcribed by the researcher, the content read and re-read to familiarise the researcher with the breadth and depth of the transcription content. Significant phrases in the transcripts were noted and meaning and patterns pertinent to the research were highlighted. This initial familiarisation allowed the researcher to develop understanding of the empirical data.

- **Phase 2 – Generating Initial Codes**

The categories used in the analysis were drawn from the inherent assumptions of the theories discussed in Chapter 3 in line with the research question. Relevant pieces of information from the data set were selected for coding. This ensured that the coding was linked to the focus of the research and that the findings were pertinent. The coding process was nonetheless continually reviewed to capture unanticipated themes.

- **Phase 3 – Searching for Themes**

This stage of the analysis involved linking coded data into themes which also captured the main issues raised by the research questions, so keeping the findings linked to the focus of the research.

- **Phase 4 – Reviewing for Themes**

The themes identified in phase 3 were reviewed, some themes being merged and others being split to ensure an optimum match with the coded data. Subordinate sub-themes were added to reduce overlap in meanings. These sub-themes were linked with the master themes. The reviewed themes replaced any original themes which were unspecific or too narrow and so helped to capture the multi-layered complex reality of the context and the reasons behind the tendency of owner-managers not to seek management accounting services from SAPs.

- **Phase 5 – Defining and Naming Themes**

Each theme was named and described to clarify the concepts linked to the themes. To ensure accuracy, the themes were checked back against the interview data.

- **Phase 6 – Producing the Report**

The research findings were created by interpreting the themed data and incorporated into the research report.

4.5.2 Qualitative Data Analysis using NVivo Software

In this research the thematic analysis described above was carried out using the NVivo version ten software package. The benefit of using the software was to effectively manage the data gathered from the fieldwork in contrast to the more time-consuming manual approach. Use of the software facilitated the qualitative analysis by creating a structured context in which the data could be organised centrally, coded, and grouped into themes and sub-themes, allowing it to be interpreted. The documents uploaded in to the software included the transcripts of the interviews, literature articles and field notes.

4.6.0 Ethical Considerations

Since the research involved human participation and potentially issues of confidentiality, ethical approval was obtained from the Open University (see Appendix B). Data was

collected with the consent of the participants (see Information Sheet and Consent Form in Appendix A) and stored securely. No information from which people or companies could be identified has been made public.

4.7.0 Conclusion

This chapter outlines the justification for adopting a critical realist perspective to answer the research question after considering various possible alternative ontological and epistemological positions. Critical realism facilitates understanding of what sustains the barriers to greater use of SAPs for the provision of management accounting information and advice because those barriers are influenced by the interaction between agents and structures both within and outside the organisations concerned. The insight from the critical realist perspective enhances understanding of the nature of social structures which cannot be directly inferred, but can be postulated by retroductive reasoning.

The chapter also discusses possible research methods which can be used for the research. It then justifies the choice of a qualitative, case study approach using semi-structured interviews and thematic analysis of the data. Ethical issues are also addressed since the research involves human participation. The resulting research framework is therefore based on a critical realist methodology and a case study method using semi-structured interviews as a tool for data collection.

Case studies were carried out on five SAPs and eight small firms (three of which were micro). Chapters 5 to 15 of the thesis draw out the empirical findings for each of the cases individually. However, the full analysis requires the consideration of the findings among SAPs, among small firms and between the two groups. Chapter 16 therefore carries out a cross-case analysis.

Chapter 5 – Case Analysis: Rad Publishing

5.1.0 Introduction

The respondent, who is the finance manager of a publishing company, was interviewed for an hour and a half. As with all the interviews in this research, the respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

5.2.0 The Firm's Background

Rad Publishing has been in profit in most years since it was formed in 1976. It is a private company limited by guarantee and is structured as a workers co-operative. The mission of the company consists of a strong drive to be a profitable business in a competitive publishing market while retaining social commitment. Although the business has production, sales, marketing, finance and editorial departments, the hierarchy is minimal.

As an independent publisher of books for academic and general readerships, the business is a niche player with a key selling point of differentiation on the content and quality of the titles in its list. The concept of the list is important. The list as a whole has to be profitable for the business to be sustainable. Within the list there are some books which do well and make most of the direct profit, while others contribute to the profit indirectly by supporting the brand image of the firm, adding integrity and credibility as an academic publisher. Hence, for the book to be accepted for publication, it must not only meet direct financial criteria, but must also be consistent with the company's brand as well as the vision and values that the brand stands for.

The main threat for the firm is from big retailers and very large companies like Amazon which can pressurise publishers to reduce margins.

5.3.0 Evidence of Small Enterprise Status

The firm's turnover is approximately £1.3 million and the net assets are £555,000. There are 13 employees. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of chapter 2 above.

5.4.0 The Background of Key Actors

The respondent, who is the finance manager, has a diploma in financial management and an MBA. Before joining Rad Publishing, she ran a company selling t-shirts. She joined Rad Publishing as a part-time employee in 1991 in a marketing capacity, moved on to finance in 2003 and became finance director in 2005.

Most of the staff are members of the co-operative, sharing the common ethos and principles of the co-operative movement.

5.5.0 The Approach to External Accountants

The finance manager acts as an in-house accountant and the finance department is responsible for much of the management accounting information, using a specialised software package for publishing called 'Focus on Publishing', which combines accounting with editorial work, bringing all departments into a single software package. The firm uses a SAP for its annual accounts.

5.6.0 The Use of Management Accounting

Working capital presents a particular problem in academic publishing in that stock is held for a long time in warehouses so cash is not released. Management of the cash flow is therefore critical to the firm's business and requires daily monitoring. A gradual switch to printing on demand has eased this.

Standard product costing is used for pricing and product mix decisions. For the firm each book is very important, not just because of its individual contribution to profitability, but also to maintain the brand. Costing for each book proposal is calculated using 'Focus', keeping in mind the kind of paper to be used, the printing cost, the choice of typeface, marketing expenses, author's fees etc.

The firm has a good idea of its fixed costs and uses the 'Focus' software to work out how many copies of a particular book would have to be sold to break even. The liaison between three expert staff on this is discussed further in section 5.8.0 below.

However, in the finance manager's view the firm has been "probably quite weak on making the connection between the analysis of how the books were actually [selling] in practice and planning for the future".

Budgeting at Rad Publishing has been very much based on looking back with hindsight at the previous year, justifying the past rather than pro-actively planning for the future. The finance manager tried to move to a sounder approach.

"There was no sales budget or cost budget. We did introduce that and we started to introduce the idea that each department would have their budget, their responsibility, but, because of my inexperience, that was not carried as far as I would have wanted to." *(Respondent)*

It can be seen that the respondent's diploma in financial management and MBA influenced her to introduce budgeting, but her lack of experience in this area meant that she was not as successful as she would have liked at implementing the change. This is in line with the argument of Burns and Scapens (2000) from the perspective of OIE (see Chapter 3) that change in organisations tends to occur incrementally as existing institutions are modified: actors introduce rules, in this case the use of budgeting, but the way that these rules are brought into daily work is by the development of routines, habitual procedures carried out

by staff, for instance, collecting data and monitoring budget variance. Analysis of these two structures (in critical realist terms) shows that their interaction impeded the introduction of budgeting. The firm is able to compete successfully in the publishing market partly because staff deeply share a sense of joint responsibility. Yet they also recognise that effectiveness can be increased by focusing responsibility within a departmental structure. In OIE terms the budgeting rule was accepted, but did not fully emerge as routines of practical action (Burns and Scapens, 2000). In NIS terms there was decoupling, but not arising between ceremonial rules and efficient practical implementation (Meyer and Rowan, 1977). Rather, the decoupling stemmed from the partial conflict between deeply held views of how to achieve effective and efficient practice.

One reason for introducing budget variance analysis is to allow the development of responsibility centres (Jones, 2006), the delegation of financial responsibility for different aspects of the firm's work to particular departments. The finance manager feels that the limited implementation resulted from her inability to manage the change. In her view, while the necessity of co-ordination and control is recognised by staff, the flat organisation of the co-operative with the sharing of ultimate responsibility across all members makes it difficult to develop individual ownership of the responsibility for reducing budget variance.

The conflict referred to above has a further effect. While the inclusion of all members in key decisions leads to a greater awareness and sense of engagement, the lack of hierarchical accountability to board members or managers means that individuals are not challenged on their performance, but have to look to themselves, creating the danger of a lack of awareness of alternative approaches. Since they are unchallenged, they are not pressured to seek external advice. This suggests in line with OIE that the unquestioned

institutionalised behaviour could encourage stasis, the maintenance of the status quo, which will not always be in the interests of the organisation (see subs.6.2.3 of Chapter 3). In critical realist language existing structures are not being modified by actors and so they continue unaltered, inhibiting the improvement of practice.

Management accounting information has been rarely used in the firm for long-term decision support purposes. Capital expenditure decisions are infrequent and according to the finance manager they only began to use management accounting for this purpose when the firm obtained a loan for a digitalisation programme from the Co-operative Loan Fund. The push for planning ahead and reporting came from the external pressure exerted by the Loan Fund. So the change to the status quo arose from coercive isomorphism to comply with rules that had been legitimised by dominant organisations like banks and co-operative sector financiers. This led the firm to conform to requirements arising from institutions that exist within external organisations, such as the emphasis on long-term planning. The problems in practice with trying to comply with the expectations for long-term planning were explained by the finance manager in the following way.

“It is probably true for many small businesses [that] you are ... [in] crisis-management, you are fire-fighting and the resources you have for long term planning are quite limited. It is an issue for small businesses that they are in survival mode a lot of the time.”
(Respondent)

This comment highlights the way that constraints on resources limit the room for long-term planning. In line with the NIS concept of decoupling (as highlighted by Meyer and Rowan, 1977) it can be seen that the formal rules imposed by external structures were in conflict with the actual routines implemented in the business.

5.7.0 Evidence Regarding the Cost-Benefit for Small Enterprises of Obtaining Management Accounting Information from External Accountants

From time to time the firm has considered contracting services to external accountants for the provision of management accounting. The respondent made clear that it would not be possible to offset such a cost by outsourcing the finance department to an external accountant because the co-operative structure means that a small number of staff carry out many and varied tasks relating to publishing. These tasks cross departmental boundaries and could not be passed to an accounting firm. While they see some advantage in using external accountants for crises and twice yearly, they are of the view, rightly or wrongly, that the benefit of using them more extensively would not be great enough to warrant what they believe would be a large cost. They are therefore reluctant to contract for general management accounting services. As the finance manager observed:

“You know they will end up telling you what you already know; ... you are thinking, what are they going to cost and are they really going to tell me anything useful?” *(Respondent)*

Since the business has used the external accountants for management accounting advice on the occasions mentioned, the staff have at least some information on which to base their view of the high cost and limited benefit of a more extensive external service. Furthermore, as section 5.8.0 below examines in more detail, the management accounting information generated internally for decisions on whether to publish a book could not be practically or cost-effectively produced by an external accountant because it hinges on the interactive assessment of the editor, sales manager and production manager, after which the calculation is produced by the specialist publishing software.

The staff's view *ex ante* on the use of external accountants for more extensive management accounting is therefore based to some degree on rational analysis, but, from the finance manager's responses on this point, there is no evidence that their view is based on a well-informed analysis of the full costs and benefits. Their approach is therefore consistent with

OIE where the taken-for-granted assumptions and perceptions of staff are preventing the change to greater use of external accountants and act to maintain stasis.

It is, however, significant that the firm is not unaware of the benefits of advice from external accountants and did use them during a crisis triggered by the failure of a distributor's business. In that case the finance manager's initial intent in using the external accountants was partly because they added legitimacy to the finance manager's approach by virtue of their professional authority. In this way they would provide reassurance to other staff, facilitating agreement on what approach to take. So, during difficult decisions which could lead to criticism of staff, the intent to use external accountants partly as legitimators is consistent *ex ante* with the approach of NIS. However, the intent can also be consistent with rational optimisation in line with neo-classical economic theory.

As mentioned above, the use of external accountants following the collapse of a distributor was partly based on the intent to increase legitimacy in line with NIS. However, awareness of institutional contradiction did lead to just such an instance of an institutionalised approach being replaced by one which was *ex ante* consistent with neo-classical economic theory. It became apparent to the finance manager and other members of the co-operative that the institutionalised practice of relying solely on in-house staff for deciding financial issues was no longer optimal because the staff lacked the skill to handle the financial issues arising from the crisis. Triggered by that institutional contradiction, they introduced a new rule of behaviour, namely the involvement of the external accountants. The intent behind this decision was optimal and consistent with neo-classical economic theory. Hence it can be seen that while legitimisation featured as one initial factor in the intent to use external accountants in this case, once the institutional contradiction had been perceived the main factor in the intent was neo-classical optimisation.

The experience of using external accountants to support decision-making in the crisis following the distributor's collapse had an additional effect. It provided the co-operative members with some information about the likely benefit of using the accountants for more general management accounting information. The cost of a particular new external service can be determined, but the benefit is harder to quantify. One could argue that the co-operative members' decisions on how much to use external accountants could be based on the neo-classical assumption of optimisation using the information derived from such previous experience. However, such optimisation would clearly have to be severely constrained by the practical limits of how accurately the benefit of a management accounting service could be determined from limited experience of a different situation. What is crucial in analysing whether a neo-classical view of optimisation is feasible in this situation is that the factors involved are judgements concerning intangibles such as confidence in the actions of the external accountants and a sense of legitimacy as well as trust in the understanding of the business by outsiders. Such judgement of intangibles is likely to be strongly influenced by perceptions and taken-for-granted assumptions embedded in existing institutions both within the organisation and deriving from the backgrounds of individual members of staff. It is therefore more likely to be consistent with the institutional approaches of OIE and NIS than with neo-classical economic theory.

5.8.0 Evidence as to Whether Carrying Out Management Accounting Internally Generates Extra Insight

The exploratory study of Lucas et al. (2013) found that internal compilation of management accounting information within small enterprises created an opportunity cost in terms of senior managers' time, diverting them from other key business tasks. In the case of Rad Publishing, however, collating the cost information for a particular book proposal inevitably involves liaison between the editor, production manager and sales manager in terms of the specific issues arising for that book. The maths is then done by the

Focus software. The opportunity costs relate to that liaison. They are therefore unavoidable and would still arise if the management accounting calculation was done by an external accountant. The use of management accounting information in this way generates insight through a process that clearly could not be practically and cost-effectively provided by an external accountant. The decision to generate this management accounting information internally is therefore consistent with neo-classical economic theory.

The particular circumstances of the business – the way that working capital is tied up in unsold books, the availability of specialist publishing software, the central significance for the business’s sustainability of the decision to publish a particular book – are factors which need to be taken into account in the neo-classically based cost-benefit analysis used for the decision on whether to outsource the accounting for the publication decision. In critical realist terms they are structures: they shape whether and how causal mechanisms lead to particular events. In this case they are structures associated with optimal analysis in neo-classical economic terms. However, structures can also be institutional factors such as people’s attitudes and preconceptions. These can sometimes arise from a sense of engagement and familiarity with a business.

In the respondent’s view the shared approach and joint decision-making of the co-operative structure give members a sense of proprietorship and a feeling that they know the business and its approach better than would be the case for someone external.

“Well if you set up your firm, you are likely to think you are the best person to understand it because it is your business. It is your idea. You have set it up. You have a sense of proprietorship that you don’t if you are simply employed. It is your baby.” *(Respondent)*

This perception seems to lead staff to believe to too great an extent that they are able to obtain better insight from doing the management accounting themselves. This means that the staff are unaware of, or at least unreceptive to, the innovative advantages of drawing on

external expertise. To that degree the decision not to use external accountants more extensively was partly based on an untested perception of the benefit in line with OIE. However, it is clear from other sections of this chapter that the staff, particularly the finance manager, did have experience of meeting with the external accountants to discuss management accounting information both six-monthly and in response to crises. Nonetheless, for the reasons outlined in section 7.0 concerning intangibles, determining the benefit of using external accountants for additional management accounting information is still more likely to be consistent with OIE and NIS than with neo-classical economic theory.

5.9.0 Evidence as to Whether Accountants Fail to Promote Management Accounting Services Sufficiently

The respondent feels the SAP manager raises issues within the firm when it is of concern and is mostly satisfied with his advice. The finance manager's view is still that on balance she is happy with her current accountant, given his knowledge of Rad Publishing and the contribution that he is able to make and did not wish to change. She has occasionally received unsolicited phone calls from other accountants seeking new customers, but they did not explain what they meant by management accounting services so she could not have judged if the services were worthwhile.

“Well I think I would not really know what they were offering, to be honest. I don't know. My knowledge is pretty limited here.”
(Respondent)

This supports the view expressed in the exploratory study by Lucas et al. (2013) that there is a need to provide training for both owner-managers of small enterprises and external accountants in ways of communicating and interacting to ensure that the external accountants have sufficient understanding of the business to be able to produce management accounting information that is customised to suit that specific business and can convey the benefits of such information to key people in small enterprises.

5.10.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

The finance manager commented that the SAP manager knows the business well because of involvement over many years.

“He knew our accounts so intimately that he was able to just chip in, an hour’s meeting twice a year. It was not coming out of the blue. He knew everything that was going on and gave some useful advice.” *(Respondent)*

In the finance manager’s opinion the SAP manager has sufficient understanding of the business to be able to provide customised implementable management accounting solutions rather than solely generic information. This empirical evidence contrasts with the findings of Lucas et al. (2013) and Reeb (1993) that information tends to be offered by accountants in a generalised format rather than being tailored to the client’s business. The finance manager sees the SAP manager’s advice as useful and has learned from it. Her own understanding of management accounting evolved as a result of the advice.

The learning and understanding that had been developed by the SAP from their work with other small businesses allows not only for common solutions to be diffused to the current firm, but also organisational or socially constructed norms. So while the accountants’ professional expertise is being applied to the business, cross-fertilisation is also contributing to the development of common ways of working, encouraging professionalization and normative isomorphism in line with NIS.

5.11. Conclusion

Some of the issues raised in the analysis of this case are part of a pattern among cases, or throw light on issues raised in other case analyses, so will be considered further in the cross-case analysis in Chapter 16.

In-house preparation of management accounting information for the crucial publication decision incurs opportunity cost in staff time which is unavoidable as the specialist

collaboration needed could not be practically outsourced [neo-classical economic theory, constrained optimality]. The implementation of budgeting was impeded by a clash between two structures arising from the organisational ethos [OIE]. The long-term planning requirements of a loan organisation led to decoupling [NIS].

In-house calculation is optimal for the current management accounting information, but the finance manager is aware that profitability could be enhanced by some additional management accounting perspectives not currently used because of taken-for-granted assumptions [OIE]. The financial collapse of a distributor was handled by drawing on the SAP manager's expertise. The finance manager recognised the need for help in determining the optimum management accounting response [neo-classical economic theory], but also realised that the external accountant could enhance the legitimacy of her proposed solution [legitimation (NIS)].

The successful involvement over the collapse of the distributor increased trust that the SAP could deliver worthwhile benefits and led to six-monthly meetings with the SAP manager to discuss business performance. This demonstrates the significance of intangibles such as trust in the light of imperfect information. While intangibles can be associated with preconceptions (OIE), they are also consistent with the constrained optimality assumption of neo-classical economic theory provided that they do not produce an obviously non-optimal result. However, a significant amount of sub-optimality persists in this case [OIE on balance]. The role of intangibles is examined further in the cross-case analysis in Chapter 16.

The six-monthly meetings with the SAP manager provide learning and are accepted within the firm as useful. Not only are solutions found for specific problems, but also practices and processes which are successful in other firms are passed on, leading to normative isomorphism [NIS].

The calculation in-house of the currently used management accounting information is optimal [neo-classical economic theory but also consistent with OIE], but additional management information perspectives which could enhance the profitability of the firm are lacking [taken-for-granted assumptions, OIE]. Some of the proposals of NIS are also present, such as legitimation and normative isomorphism. On balance the approach of the firm to management accounting is consistent with OIE and NIS.

Chapter 6 – Case Analysis: Quality Engraving

6.1.0 Introduction

The respondent, who is the book-keeper of the firm, was interviewed for an hour. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

6.2.0 The Firm's Background

The business is a manufacturer of engraving machines, formed in 2004 as a private company limited by shares. The actual manufacturing of the machines is contracted out, but the firm carries out R&D as well as producing the in-house software for the machines. The business operates in the niche market for engraving machines and maintains a strong position because it has pioneered the development of machines which make use of modern electronic and computer-based control systems.

The firm has relied on innovation to keep ahead of the competition, creating machines which can be operated much more quickly and reliably, but has also expanded the market because the computer control allows some machines to be operated with little technical skill.

6.3.0 Evidence of Small Enterprise Status

The firm's turnover is slightly over £1 million and it employs six full-time employees. Its net assets are £791,000. It therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of Chapter 2.

6.4.0 The Background of Key Actors

The respondent has a non-financial degree. Prior to her current job as book-keeper, in which she prepares some management accounting information for the owner-manager, she had experience in doing accounts and book-keeping for an international Japanese firm.

6.5.0 The Approach to External Accountants

The respondent provides the formal and informal management accounting information used in the company. Although an external firm of accountants is used for the business's annual accounts and tax return, they do not provide management accounting services.

6.6.0 The Use of Management Accounting

The firm uses a well-known commercial accounting software package, 'QuickBooks'. The package allows the user to easily generate reports, track figures, manage cash flow and monitor expenses.

As mentioned, the firm creates the software for the engraving machines but contracts out the manufacturing of the machines. It supplies those firms with raw materials, so records the cost of that, but does not directly incur the other costs of manufacturing, since these are included in the purchase cost from the firms carrying out the manufacturing. Pricing is based on standard costing with the addition of a mark-up based on what the market can bear.

The respondent uses QuickBooks to work out the number of machines that need to be sold to break even. She then summarises the formal reports from QuickBooks because the owner-manager prefers the information to be presented in a clear simple format. The respondent also uses a spreadsheet to monitor cash-flow on a monthly or two-weekly basis.

The business does not use budgeting, either formally or informally. With regard to the ex ante basis for the lack of budgets, the respondent said that the owner-manager's view is

that budgets would not provide any benefit because the small size of the business means that he is personally aware of whether expenditure is matching expectations. Since the manufacturing side of the business is contracted out, the owner-manager is aware of all aspects of the business so the respondent believes that the lack of budgets does not adversely affect the business's ability to achieve its targets. The owner-manager has run the business successfully for ten years. The intent behind the decision not to use budgets is consistent with neo-classical economic theory in this simply structured small business. The approach to budgeting is in line with the finding of the study by Lucas et al. (2013) that small firms may appropriately decide not to use techniques such as formal budgeting and responsibility centres.

According to the respondent the firm does not use management accounting information for long-term decision support. Since manufacturing is outsourced, there are fewer decisions which would benefit from such techniques. Capital expenditure is financed from existing capital rather than through loans so the business is not obliged to comply with the requirements of banks or other external sources of finance.

The owner-manager tends to rely on experience and rules of thumb in considering those capital expenditure decisions which do arise. At first sight such an approach could arguably be seen to be inconsistent *ex ante* with neo-classical economic theory and better explained by OIE in that it does not seek a fully informed optimum solution, relying instead on hunch and experience. However, given the small size and nature of the business, the cost of obtaining that information means that the use of low-cost proxies such as experience and what has worked in the past are consistent with the constrained optimisation assumption of neo-classical economic theory. Quick decision-making by the owner-manager and avoiding the cost of more complex systems make an important

contribution to the flexibility which allows small companies to exploit opportunities and prosper.

6.7.0 Evidence as to Whether Carrying Out Management Accounting Internally Generates Extra Insight

“You need to see your information everyday and the accountant may just give it to you once a month.” *(Respondent)*

This comment by the respondent was made in support of her view that greater insight could be gained by doing management accounting in-house. She pointed out that she can drill down and filter detailed information on a daily basis.

She has regular contact with the owner-manager. He makes all the decisions in the small business and wants answers to ad hoc questions at any moment. This information is available mostly from QuickBooks. The opportunity cost is negligible because only a small amount of information is created and it is obtained mostly from pre-set menus in the accounting software. Given the small size of the business and the centrality of the owner-manager in the decision-making, more extensive management accounting is unlikely to be necessary. The intent behind in-house generation of this small amount of information is therefore based on a well informed analysis of the optimum for the current circumstances and is consistent with neo-classical economic theory.

6.8.0 Evidence as to Whether Owner-Managers Do their Own Management Accounting to Protect Confidentiality

The respondent gave confidentiality as one of the factors for not seeking management accounting services from external accounting practices. She did not provide any supporting evidence for distrusting the professional integrity of external accountants with regard to confidentiality. Nor did she refer to any sort of informed analysis of the risk and cost of such a potential breach compared with any benefit from using the external accountants' expertise in management accounting. The respondent therefore seems to have based her

view on assumptions that she has not thought to question. Her opinion ex ante seems to be based on preconceptions rather than a well-informed assessment and is consistent with OIE. It also clearly shows her lack of trust of external accountants on this matter. However, the evidence is not clear as to the basis for this lack of trust, which could be consistent with either institutional theory or neo-classical economics. Nonetheless, a lack of trust exists and that aligns with the finding of Lucas et al. (2013) that confidentiality is one of the reasons why small enterprises do not use external accountants for management accounting. It is also a further instance in support of the call by Kirby and King (1997) and Scapens et al. (2003) for steps to improve the trust between small enterprises and SAPs.

6.9.0 Evidence as to Whether Owner-Managers' Lack of Financial Literacy Inhibits the Adoption of Management Accounting

Since the manufacturing of the machines is contracted out, many of the control requirements of a manufacturing company do not exist for Quality Engraving itself, which remains a small business that the owner-manager can keep a close personal control over. The owner-manager does not seek much by way of formal management accounting information. Nonetheless, as mentioned in section 6.6.0 above that the owner-manager has run a successful business for ten years so appears to have the information that he needs for his type of business in the current state of the market and the competition. This suggests that his decisions and judgements currently produce (constrained) optimum solutions in line with neo-classical economic theory because more extensive management accounting information is not currently needed. However, it raises the question as to whether that will continue to be true if the market changes or the company grows.

As Lucas et al. (2013) point out, not using some management accounting tools may be appropriate for a small business, but less so if the business grows. This warning is given added significance by one of the findings of McChlery et al. (2004) that respondents tended to be disappointed with the support they received from external accountants in

developing management accounting systems. The limited management accounting tools used in this case are seen by the owner-manager to be appropriate for the business, but it is clear that, if the business grows significantly or market changes require diversification, the needs will change. The time when this change is necessary “will be determined by the emergence of decentralised decision-making and increased scope in product range” (Lucas et al., 2013: 17). The owner-manager is likely then to need good support and a willingness to be receptive to new approaches to maintain financial robustness.

6.10.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

Recently, because of retirement, a new external accountant has taken over. The respondent is of the view that the new external accountant is professional and expert in his area so can develop sufficient understanding of the business. That view is of course based on her concept of the external accountant’s role with regard to this particular business. This reflects the business’s institutional position that the external accountant is used solely for historical accounting.

The former external accountant had been someone known to the owner-manager since childhood. This seems to have facilitated a smooth relationship between the owner-manager and the external accountant with both having a similar view of the role of the external accountant in terms of helping to set up systems to handle the financial side of the business, ensuring that the necessary records were kept, the annual accounts completed and taxation requirements met. Although the demands on the external accountant did not extend to the provision of formal management accounting information, the trust arising from the longstanding relationship meant that the owner-manager felt able to consult the external accountant on issues that cropped up. At the level at which it was required, the external accountant was able to provide support and suggestions.

In critical realist terms, the causal mechanism of the owner-manager's wish to resolve a problem was more likely to arrive at a satisfactory outcome because of structures, consisting of trust, a personal bond and the external accountant's knowledge of what the owner-manager required. This structure encouraged him to consult the external accountant, who in turn could pitch his advice to suit. Such a way of acting had become institutionalised and the institutions were strengthened by each successful consultation. The concern is therefore that the institutions strengthened over many years might involve habitual ways of thinking which would not be appropriate if the business circumstances were to change. The existing institutions might block fresh thinking.

The new accountant is having to fit into existing institutional expectations. When the respondent was asked in the interview if the new external accountant has a sufficiently thorough understanding of the business to be able to act as a valuable business partner to help increase the business's financial robustness, the power of the existing institutions was apparent.

“Yes he is new. He is quite good actually. I don't know [if he has business understanding] because we did not seek any advice from him.” *(Respondent)*

The new external accountant may produce fresh insight. It will depend on his training, experience and personality whether he is inclined to move beyond the role currently required if the business's growth and structure require that in the future. It is not yet clear what understanding the current external accountant has of the way that the business works, but the institutions currently in the business mean that two-way learning will be an uphill struggle if growth and structural complexity make it advantageous for more complex management accounting to be used in the future.

6.11.0 Conclusion

Since the actual manufacturing is contracted out, the firm is small and the owner-manager is aware of all aspects of the business. He has successfully run the firm profitably for many years. He tends to work with only a small amount of formal management accounting information, relying on rules of thumb and experience when making decisions. This could be seen as institutionalised behaviour in line with OIE, but, given uncertainty and information costs, the use of low-cost proxies in this way is also consistent with the constrained optimisation assumption of neo-classical economic theory. It has demonstrably worked as can be seen from the firm's success and contributes to the speed and flexibility of decision-making that is a key advantage of small businesses.

The formal management accounting information that is required is quickly and easily available from the commercial accounting software. The respondent is also able to meet the owner-manager's ad hoc information requests using standard menus. It is therefore optimal and consistent with neo-classical economic theory not to contract out production of the management accounting information.

However, that picture would be likely to change in future if growth makes the firm structurally more complex, or if market changes require diversification and a more extensive product range.

The recently retired external accountant had known the owner-manager since childhood and the business relationship contained considerable trust. While no formal management accounting was routinely required from him, he provided advice when the owner-manager consulted him. The new external accountant is having to fit into existing institutional expectations. Should changes occur in the business's circumstances, the new external accountant might be able to give useful advice, depending on his abilities and expected role, but only if he has had the opportunity to develop understanding of the business.

To be clear, the firm does not currently need to adapt. The level and source of management accounting information are optimal for the current circumstances and in line with the assumptions of neo-classical economic theory. There is no evidence that the firm would fail to adapt should the need arise.

The point of raising the issue is to question whether the institutionalisation of previously optimal practices and perceptions could cause a barrier preventing the adaptation of management accounting to changed circumstances in other businesses.

Chapter 7 – Construction Engineering

7.1.0 Introduction

The respondent, who is the managing director of the company, was interviewed for an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

7.2.0 The Firm's Background

The firm provides consultancy to the construction industry and consists of engineers, designers and surveyors. It has a country-wide client-base. The original business has been running since 1977, but was taken over in a management buy-out by the respondent less than a year before the interview. A new company was formed, but the staff and the work of the business remain as before. The respondent became managing director at the time of the take-over and the previous owner-manager began to work for the firm as a consultant. The firm is currently rebuilding its profit after the recession.

7.3.0 Evidence of Small Enterprise Status

The firm's turnover is approximately £400,000 and it has seven full-time employees. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of chapter 2 above.

7.4.0 The Background of Key Actors

The respondent obtained a degree in civil engineering and then qualified as a chartered engineer. Apart from one year with a property developer he has always been in engineering consulting.

7.5.0 The Approach to External Accountants

The firm does not have an in-house accountant or employ staff to collate management accounting information. The respondent is seeking to build the business up to where it was before the recession and accepts that such staff could be taken on in the future, but cannot currently be afforded. The managing director himself collates most of the management accounting information.

“In terms of putting the fee proposal together, agreeing the fee with the clients, doing the invoicing and chasing [payment], that kind of stuff and monitoring where we are on financial [side of the] project to the extent I need to do at the moment. Yes, it is all me.”
(Respondent)

He sees the large amount of time he spends on management accounting as temporary because he is learning his way into the role of managing director, deciding how to change existing practices and build up systems for making data available. As Ng et al. (2013) point out, owner-managers may become unduly attached to the systems they have developed, so this could be the case with the former owner-manager in this case.

“I have just taken over in the business so I don’t want to rely on what the previous regime did because I don’t agree with a lot of things, the way they did things. So it is going to take me eighteen months to two years to get to that level of information, to correlate it, review it and then analyse it.” (Respondent)

7.6.0 The Use of Management Accounting

Most of the turnover of the firm is on bigger projects, which use a fixed fee based on the market rate and in the light of the respondent’s estimate of cost in terms of the time needed and the type of staff required. Smaller projects, which do not have a large effect on the profit, are priced on an hourly rate which depends on the level of skill and experience of the employee involved. The rate is determined using standard costing plus profit. The firm currently calculates the hourly rate as two and half times the hourly salary of the worker involved. This is based on a historic ratio between salary and overheads. The respondent

wants to check whether the historic ratio is covering the overheads, but this is part of his medium term aim to develop management accounting systems as the business builds back from the recession. This illustrates the OIE view of the importance of history, that management accounting systems develop path-dependently, in a dynamic way from the previously existing position rather than solely by a series of individually optimal actions (Ahmed and Scapens, 2000).

As the managing director, he is aware of what is happening across the business, which has a simple structure so budgeting by responsibility centre would not be expected. When pricing projects, he is aware of the likely costs and how much will be contributed to the overheads by a project, so knows in broad terms how much work is needed to break even. He maintains a spreadsheet to monitor when invoices are sent out and the due date so a reminder can be sent out. He would like to improve cash forecasting.

“Yes, I have got it in my mind to try and do that.... I really do not have time to think about it at the moment.” *(Respondent)*

Cash-flow is further complicated by the nature of the work, which tends to involve several months of costs up-front for labour and materials before payment becomes due. Uncertainty also has a significant effect on cash flow because in the construction industry initial enquiries may take some time to emerge as a definite contract.

The nature of the work means that there are not many capital expenditure decisions other than for situations where there is no choice such as when a computer breaks down and has to be replaced. The respondent has therefore not had to deal so far with decisions where the capital cost has to be weighed against the payback.

The respondent sees the current level of management accounting as a product of history, but recognises that he is not in a position to decide the exact way forward until he has a better knowledge of the firm's financial patterns. These issues and the degree to which

they can be explained by existing theoretical frameworks are explored further in the next section.

7.7.0 Evidence as to Whether Carrying Out Management Accounting Internally Generates Extra Insight

The exploratory study of Lucas et al. (2013) found that owner-managers of small businesses preferred to carry out management accounting information themselves incurring opportunity cost in terms of the owner-managers' time, by preventing them from carrying out other key business tasks. Lucas et al. (2013) also highlighted the owner-managers' view that collating the information themselves gave them more insight than they would obtain from a report by an external accountant. They were able to drill down to understand the issues behind the numbers so appropriate decisions or corrective action could be taken.

The respondent is aware that the external accountant has skills which he himself lacks so he has used the accountant for advice. He recognises the benefit he has obtained and is clear that the accountant will be more efficient than him at some tasks and do a better job.

“My time is very precious and that comes back to how much do I spend on the financial side of the business. I would rather be doing the [non-financial] work and if somebody can do the other side of things then I am quite happy to hand it over.” *(Respondent)*

In the respondent's view a number of practices in the firm are not optimal. In the language of Seo and Creed, they are creating 'institutional contradictions' (2002, p. 223), acting in ways that conflict with the current needs of the business. As an agent the respondent has become aware of some of the contradictions and has the authority to modify the practices. However, he has to do so within the resources available in the light of competing priorities.

The first stage as the key change-agent is that he needs to become aware of all the practices which need to be changed. The second stage is that he will have to overcome the stasis – continuation of the status quo, the resistance to change. It is therefore very important for

him to have a thorough grasp of the counter-productive effects of the existing institutionalised practices. It is for these reasons that the respondent is collating management accounting information himself.

The particular circumstances of the business therefore differ from those encountered by Lucas et al. (2013) in that the respondent is building up insight crucial to making optimal profit-maximising decisions in due course. Hence his expressed intent in spending a lot of time on management accounting is to prepare the ground for making the changes in order to optimise the running of the business. That intent is in line with the constrained optimum assumption of neo-classical economic theory.

7.8.0 Evidence Regarding the Cost-Benefit for Small Enterprises of Obtaining Management Accounting Information from External Accountants

The business has been using the same external accounting practice for twenty-five years, mostly for preparing the annual statutory returns. The accountants have a good background knowledge of the firm and of small businesses in general.

“I know the director who runs the business, I know him quite well personally. It is not a very formal client-accountant relationship. If I have got a question or a problem, I just ring him up or just go for a drink and discuss it. I don’t think I am paying for that.”
(Respondent)

The personal relationship means that the respondent can get some advice as and when he needs it. Although he thinks that his accountant is more expensive than someone he could find on the high street, he believes that his accountant’s expertise and knowledge of the business are worth paying for. The respondent sought management accounting and business development advice from his external accountant when he was setting up the new company after the take-over.

The involvement with the accountant in this situation means that the respondent now has at least some experience of charged management accounting services on which to judge the cost and benefit of such services in the future.

“I think if I decided that it was something we needed to do, I think I would go for it depending on what the cost is.” *(Respondent)*

This statement by the respondent implies not only that judgements would have to be made on cost-effectiveness, but also crucially that the respondent trusts the accountant to deliver a worthwhile benefit. Particularly at this early stage of the respondent's experience as managing director, decisions about the use of management accounting cannot draw on comparable previous involvement with the accountant. Intangibles are bound to be involved such as the degree of legitimacy in the respondent's view of accountants in general and the level of trust he has that this SAP can deliver a particular service.

Such intangibles are likely to be influenced by unconscious assumptions and perceptions. In the case of setting up the company there was trust arising from the accountant's experience of the business, for instance. The respondent used the accountant for initial setting up of some basic management accounting systems, but avoided being rushed into more extensive systems. As quoted above, if in his judgement the business needs further management accounting information from the accountant, he will go for it, subject to cost.

On the one hand the interaction of rational analysis in decision-making with intangibles such as trust and personal opinion can be seen as evidence of the effects of institutionalised behaviour as proposed by OIE. On the other, it can be considered to be consistent with the constrained optimisation assumption of neo-classical economic theory as a normal part of finding an optimal solution given imperfect information (Ryan et al., 2002).

7.9.0 Evidence as to whether Accountants Fail to Promote Management Accounting Services Sufficiently

The respondent believes that the accountant has a good understanding of how small businesses operate and is happy with his service. He sees the accountant as being proactive in promoting management accounting; and as having done so based on what the respondent's firm needs, rather than just for the benefit of the accounting practice.

“At the moment I am largely relying on him to advise me on what I need and I would rely [on him] even in the future to do that. I would not expect him to push services just to boost his profit or to boost his turnover. I would trust him to advise me on what my business might need.” *(Respondent)*

Promotion is of course not just about informing the client about what services are available, but can be as much about creating an atmosphere that makes the client want to take up the service. The overall impression in this case is that the external accountant has good communication skills and listens to the needs of small businesses in order to be able to provide a successful business partner relationship.

“I have become his personal friend anyway so I trust him and he is very good, giving me advice or answering questions outside the business arrangements.” *(Respondent)*

This supports the view of Kirby and King (1997) and Chickillo and Kleiner (1990) that the barriers to the use of SAPs by small enterprises for management accounting information would be reduced by developing the skills of both sides in ways of communicating and using each others' knowledge and experience to come to an understanding of what is needed. In this way the accountant can offer a service which is customised to fit the needs of the client's business and the client can be confident that it will provide the required benefit.

7.10.0 Conclusion

Having recently taken over as managing director, the respondent compiles management accounting information himself because he is learning his way into that side of the business. He consults the SAP manager when he needs advice and has a contract for six-monthly reviews. He has in mind to modify some of the systems that he has inherited, but first wants to get a clearer picture of what is needed.

In order to be able to carry through the change and overcome resistance, the respondent sees the need to clearly understand the problems with existing processes. His intent in currently compiling management accounting information is therefore to prepare the ground for optimising the running of the business in the medium term and so is consistent with the constrained optimum assumption of neo-classical economic theory.

As he builds up experience of the job, the managing director is covering new ground and in working with the SAP he has to rely on intangibles such as trust in order to form judgements of benefit and cost-effectiveness. While the use of assumptions in such intangibles is consistent with OIE, judgements based on factors such as trust are also consistent with the constrained optimality assumption of neo-classical economic theory. The availability and flexibility of approach of the SAP manager in responding to the managing director's needs has helped to build up trust. Promotion of the SAPs services is therefore more than informing clients of what is available, but involves a style of working.

While the circumstances of this case are unique to the business at a particular stage of its history when major change is taking place, some degree of change is a common occurrence in firms and the case draws attention to the likelihood that behaviour and processes which would be sub-optimal in the long term may need to exist as part of the process of restoring optimality. The respondent is preparing management accounting information himself as a temporary measure as part of restoring optimality in that way. His intent in carrying out

that work is therefore part of the optimising process and so is consistent with neo-classical economic theory.

The evidence from this case has a relevance whenever businesses are changing and will therefore be considered further in the cross-case analysis in Chapter 16.

Chapter 8 – Public Private Consulting

8.1.0 Introduction

The respondent is one of the three owner-managers, who are also the company directors. He was interviewed for an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

8.2.0 The Firm's Background

The business, a consultancy based in south England, has been operating for just over 20 years. Two thirds of the firm's work is within the health sector and the rest of it is split between other public sector organisations and big commercial companies. The firm provides transformation services involving recommendations for redesigning and restructuring services to maximise efficiency, improve cost-benefit and cut costs.

8.3.0 Evidence of Small Enterprise Status

The turnover of the firm is approximately £4.5 million with twenty full-time employees. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of chapter 2 above.

8.4.0 The Background of Key Actors

The respondent has a degree in history. He started to work within the health sector as a graduate trainee and realised that the services they were buying were very expensive. He saw a gap in the market so set up his own business.

8.5.0 The Approach to External Accountants

The firm does not have an in-house accountant. A full-time book-keeper is supplied by an agency rather than being directly employed because of the need for sickness and holiday cover. The firm uses QuickBooks and Zero accounting software.

8.6.0 The Use of Management Accounting

The standard reports printed by the book-keeper for the directors include monthly headline profit & loss, income & expenditure and liquidity. The business also uses a project management system which the directors wrote themselves in Microsoft Access to show the profitability for each job, what has been billed and the cost in terms of in-house resource or external associates.

The majority of the consultancy jobs are charged as a fixed fee using standard costing based on the directors' estimate of the days required. The daily rate used for this covers the direct costs plus the apportioned overheads with a margin for profit. The directors know from past experience the approximate overhead cost and the price the market will bear.

Since the overheads are relatively low and largely known from experience, the directors are able to estimate the number of project days that will be needed to break even, so the respondent does not see a need for the exact calculation of break-even.

The directors do not use formal budgeting, but do estimate income and cash-flow during the business planning process. According to the respondent such forecasts are not very reliable as the rate at which consultancy jobs come in varies from month to month. The respondent sees cash availability as something that the firm needs to monitor carefully so the book-keeper's credit control work is very important, especially as banks are unwilling to lend and public sector clients can be slow to pay. From the reports printed by the book-keeper the directors monitor liquidity in terms of each liability so they are aware of the business's financial position given the specific income that has been received.

The directors analyse management information for two separate work-streams, the main consultancy and recruitment of agency staff. They treat these streams as responsibility centres and use the bespoke project management system to show the costs and profit from each job in the two streams. The system also shows the performance of staff.

“We can say who is performing. And if ... anything [has] gone negative, we made a loss on a job. That is quite clearly highlighted.” *(Respondent)*

The directors use financial analysis in making some capital expenditure decisions such as whether to buy or lease, but the business does not usually have to make the sort of purchases that require the choice between machinery with different payback over time that a manufacturing firm might have to do. Recently considerable financial assessment went into a decision whether to move to an office in a serviced building where some costs were built into the rent. Current price comparisons were made. However, in the respondent's view, the future-cost calculations needed in that situation were judgements as to the risk of surrendering independence over cost control, which could not be calculated using formal capital expenditure tools.

The respondent accepted in interview that hunch was used in situations when, for instance, the financial difference between the deals offered by two suppliers was small so it was not cost-efficient to explore further. Such approaches come within the assumption of neo-classical economic theory that optimisation is constrained in practice because of information cost, so cheap proxies may have to be used (Ryan et al., 2002). The respondent also pointed out that calculations sometimes involve costs and overheads which are known in general terms and do not need to be precise.

Concerning cash-flow, which is critical for this business, the respondent accepted that the external accountants could produce figures forecasting cash levels, but it is difficult to know how many jobs will come in during a particular month and when they will be paid

for. Any forecast would be based on a lot of assumptions, so a precise mathematical calculation would not be a benefit. The approach used instead is for the book-keeper to work on credit control and for the directors to keep a careful eye through reports from the project management system on the liquidity for each liability and then to authorise payments in the light of that.

Although the data is recorded by the book-keeper, who then prints standard reports from the software, the directors spend a significant amount of their time analysing the information to assist with business planning, control and decision-making. The next section considers whether this work generates insight that would not be available from an externally prepared analysis.

8.7.0 Evidence as to Whether Carrying Out Management Accounting Internally Generates Extra Insight

The respondent strongly believes that the way in which the directors work on and analyse the standard reports produced by the book-keeper is essential and central to their role as directors, allowing them to drill down and get to the specifics. This is in line with the exploratory study conducted by Lucas et al. (2013) which found that some owner-managers of small firms prefer not to outsource the preparation of management accounting information to external accountants, but to carry it out themselves. It gives them better insight even when it incurs an opportunity cost by taking time that could be used for carrying out other key business activities.

The directors' analysis has two different aspects. On the one hand, they check whether the data seems to be an accurate summary of the work that has been done. On the other, they use the information for planning the business and ensuring its viability.

As far as data accuracy is concerned, book-keepers, in the respondent's view, are good at producing numbers, but can fail to understand the links between the data and particular

jobs or work-streams. One of the firm's biggest costs is in contracting people from outside the firm to supply specific services such as specialist training, whom they refer to as external associates. The daily fees of these associates are charged on to the client with a margin, but they make up a large proportion of the overall cost of jobs. Making a duplicate payment to an associate would markedly increase the cost of the job, affecting the business's overall profitability. Linking an associate's payment to the wrong job would also badly distort the management accounting information on those jobs.

“If we pay an invoice twice, because particularly we are dealing with a small number of jobs, it could be catastrophic. ... So [if an] associate sends me another invoice ... the book-keeper [will] pass it to [me] for approval.... I will say, ‘We have already paid this one.’ They will go back and say, ‘Oh yes, so you have’. But if I had not stopped it, they would have paid it twice, so that is the anxiety really.” *(Respondent)*

A larger organisation with a more complex structure and formal internal control monitoring would not depend on a director remembering such things. However, the point that the respondent is making here is that as one of the owner-managers in this small business, he knows what is going on in his projects. The directors cannot hold the detail of the accounts in their heads, nor would it be cost-effective for them to try to, but they have an overall perspective on all the jobs because they planned them. They can therefore see data problems such as an incorrect link, which the book-keeper (or any external analyst) would miss.

In the respondent's view book-keepers may be good at their job, but they do not live the business and see the link between a payment and a particular job.

In terms of business planning, the respondent sees the directors' role as a mixture of service delivery, operational management of the projects, sales and marketing and administration of the business.

The respondent estimates that 10% to 20% of his time is taken up with this sort of analysis. However he does not see it as appropriate to outsource it in order to free up his time for other work because job-costing requires the directors' experience of the time needed for a job and the rest is planning and overseeing the business.

“What we are doing is actually business planning. It is really our core business. How much we are going to charge this client for this job, working out price, is based on our experience of how long that will take. There isn't an accountant in the world that will be able to estimate the cost of the job for us so that is what we have to do.”

(Respondent)

The respondent elaborated that the cost of each job depends on factors which require the directors' experience, mostly the time required by in-house staff and external associates. The director can enter the times into the bespoke project management software, which calculates the cost based on the unit costs it holds. The unit costs can be updated occasionally by the book-keeper. An accountant would need to be briefed by a director on the structure of each specific job before being able to do the calculation.

One of the directors' central skills as management consultants is business planning and analysis. They use the book-keeper to enter the data and print the necessary management accounting reports. They then apply their skill along with their experience of the business to analyse the information. The respondent explained that when the directors are developing a new service, they work out the cost and then market the service, trying different prices in proposals to clients to see which are accepted. Once a job is accepted and put onto the software, the book-keeper can produce the numbers to allow the directors to assess the progress and profitability of the job.

The reports printed by the book-keeper give the current situation. The directors look back across previous reports and use the information to model forward to assess the likely effect of making a particular decision.

Ng et al. (2013) found that owner-managers may sometimes retain too much control instead of outsourcing or delegating because they are too close to work practices that they have developed. However, in this case the directors have developed management accounting systems so that the book-keeper can enter data and print reports for the directors to analyse. The respondent has sought with only limited success to increase the book-keeper's understanding of how the data links, illustrating how the significance of the data is clear only to someone who understands the overall picture of what the business is trying to achieve. No matter how much technical skill is used in preparing a management accounting report, someone lacking that overall understanding of the business is likely to miss links and patterns that would be obvious to the directors because they are involved in the planning and costing of the jobs. Some opportunity cost is inevitably incurred by spending time collating data from the reports, but the respondent sees that as worthwhile in terms of the benefit in understanding.

The respondent pointed out that the business involves a relatively small number of consultancy projects, each tuned to the specific need of the client.

“It would just take too long [for an external accountant] to understand how we put the cost together and for every product line there is a slightly different model in terms of how we will price things.” *(Respondent)*

It is not that the external accountants fail to understand businesses in general, but that no one other than the directors would know the specific approach used for each project without a large amount of time (and so cost) in finding out.

As proposed by Lucas et al. (2013), the accountants would need to change from being external advisors to being business partners. However, the respondent believes that it is not worth paying for that kind of expert knowledge when it is not going to make a huge difference in terms of saving costs. He is not unaware of the benefits of using expert advice

if the business expands and becomes more complex, but believes that the current business model does not require detailed information beyond that supplied by the in-house systems. In his view, if the business does grow, the directors will need to consider whether it would be better to outsource or to create the provision in-house.

As management consultants the directors have specialist knowledge about the use of management accounting information. Over twenty years they have set up systems to allow the book-keeper to enter data and print reports for the directors to collate and analyse. Their intent in taking this approach rather than contracting an external accountant to provide the information is well-informed, given the directors' personal skills and the particular information needs of the business. The intent is to maximise the profit of the business and ensure its sustainability, so is consistent with neo-classical economic theory.

8.8.0 Evidence as to Whether SAPs Lack Business Understanding

The respondent believes that the external accountants have a good understanding of the firm in terms of the areas for which the business uses them such as annual accounts. The accountants provide some overall strategic advice when reporting the accounts and suggest reclassifying items or moving them into the next year. They have usefully provided advice on the tax implications of specific plans that the directors had for the structure of the business so have shown that they can tailor their advice to what is needed. This is in contrast to the finding of Reeb (1993) that the services offered by external accountants tend to be generic rather than customised.

Overall the respondent believes that the external accountants would be technically capable of producing management accounting information for the business, but, as discussed in section 8.9.0, it would not be practical or cost-effective to contract them to do so in the current circumstances.

8.9.0 Evidence Regarding the Cost-Benefit for Small Enterprises of Obtaining Management Accounting Information from External Accountants

The respondent values what the external accountants do for the business in terms of annual accounts, taxation and giving advice on the tax effects of different ways of structuring the firm.

“Our external accountants are fine. They are not cheap, but they tend to pay for themselves in terms of what they save us in our tax bill.” *(Respondent)*

However, he does not see it as cost-effective to obtain a management accounting service from them. The business does not require the sort of detail that would be needed by a firm with a more complex structure and a wide range of products. The business has low overheads, known from experience, and costs can mostly be allocated to specific jobs. Based on the directors’ experience of the time needed for a job, the cost of carrying it out can be worked out from the known cost of staff time or of contracting an external associate to do the work. In the respondent’s view, briefing the external accountant would probably take longer than doing the calculation themselves.

“Cost is an issue, but also we do not need most of our things working out two decimal points. We know roughly it is going to take twenty days. We know the sort of person who will do it. We know [what] the cost [of] that person will be and then we will put forward a proposal to [the client] based on it.” *(Respondent)*

The respondent refers to the cost of using an external accountant, but the other point he is making here is that the benefit would be small. At least one of the directors is involved with each consultancy job. Costing and monitoring a job requires the directors’ knowledge and experience rather than a mathematical tool.

A key factor in the directors’ response to ensuring that they had the management accounting that they needed is that they have gradually built up a customised project management system to meet their needs. The system is designed to balance the roles of the

directors and the book-keeper. The book-keeper can enter data once the parameters for a specific job have been set up by the directors. In this way the directors set up the information known only to them and the book-keeper can add ongoing information such as payments and print reports for the directors to analyse. The system has been designed so tasks fit the staff roles and abilities. The directors accept the need as part of their core job as manager directors to spend some time becoming aware of the patterns and lessons in the data.

This evidence about the development of the project management system may point to part of the reason for the finding by McChlery et al. (2005) that managers of small businesses tend to be less satisfied with their external accountants over the development of management accounting systems compared with systems for financial reporting. The latter can be more easily standardised across most businesses, whereas management accounting systems are likely to require greater customisation in the light of the information required and the roles of staff in running them. This evidence has a relevance to other cases so will be considered further in the cross-case analysis in Chapter 16.

One area the respondent thinks SAPs could currently help with is by flagging up grants or financing schemes which would benefit the business. The directors tend to become aware of them only when they stumble across them themselves. Another approach which the respondent suggested would help both sides to develop greater mutual understanding and so promote a business partner relationship is by exploring how the accountants could take on the role of non-executive directors on clients' boards. This would help small firms to get the benefit of an external view of the business. The external accountants have access to the accounting system so could produce some forecasts or key ratios and say how the firm compares with some of their other clients. In this way they could also inform the discussion on future strategy.

If in due course the situation changes so more management accounting information is required, the directors will have to assess the optimum way of providing it. The respondent is not unaware of benefits of using expert advice if the business expands and becomes more complex, but believes that the current business model does not require detailed information beyond that supplied by the in-house systems. His intent in not contracting the external accountants to produce management accounting information is therefore to avoid paying for a service that would not be cost-effective. This intent is consistent with the profit maximisation assumption of neo-classical economic theory.

8.10.0 Conclusion

The respondent sees the external accountants as cost-effective for annual accounts and taxation but not for management accounting because of the nature and size of the consultancy business. The directors use a significant amount of management accounting information, in part created using systems that they have set up to allow the book-keeper to enter data and print reports for them.

The respondent views this planning work as central to the directors' role as managers. They interpret with an overall understanding of the work and focus of the business. Since the directors design the consulting projects based on experience and judgement, they understand what the numbers are showing about the business. External accountants would be able to apply technical knowledge, but without a huge amount of time and cost they would still lack knowledge of how each job is made up and would miss the significance of emerging patterns.

The intent behind the directors' decision not to use the external accountants to produce management accounting information is a well-informed optimum decision to maximise the business's profit and increase its sustainability given the business's current context. It is therefore consistent with neo-classical economic theory.

Some evidence, particularly on the development of ways of producing management accounting information, has a relevance beyond this particular case so will be considered further in the cross-case analysis in Chapter 16.

Chapter 9 – Case Analysis: Bikes Co

9.1.0 Introduction

The respondent, who is the owner-manager of a bicycle servicing business, was interviewed for an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

9.2.0 The Firm's Background

The firm, which is based in the South of England, has been trading for twelve years. It services and tunes bicycles, but is not involved in their manufacture or sale. Rather than repairing bikes brought in for a specific fault, they carry out a strip-down service on every bike, replacing, repairing and adjusting as needed. They differentiate the service that they provide by emphasising that when returned to the owner, the bike is safe and in perfect running order. The respondent is clear that they compete on quality and convenience. He sees the business as in the middle to premium part of the market.

The bike is collected free from the owner's home at any time from 8am to 8pm, given a professional service in a sophisticated workshop and returned next day.

Getting a full service and having the tuned bike returned to their door is what that sector of the market wants. In the respondent's view the firm benefits from its reputation for quality, including attention to detail and customer satisfaction. Customers have remained loyal over the years and are prepared to pay a premium price. In his view one indication of that is that the rejection rate is only about 5% when he inspects a bike and quotes a price for servicing

and repairing it. However, as shown in section 9.7.0 below, that indicator needs to be balanced by knowledge of whether the quote is realistic in terms of cost.

9.3.0 Evidence of Small Enterprise Status

The turnover of the firm is approximately £1.5 million with 6 full-time employees during peak business time. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of Chapter 2 above.

9.4.0 The Background of Key Actors

The respondent has a degree in mathematics. He worked in the IT industry in London for five years and then went travelling for a couple of years. He started the bike business in his mother's garage when he came back, later registering the business as a company and moving into a workshop.

While the respondent wants to make a profit, he also values job satisfaction.

“Yes for my reputation, for my karma, everything and yes, it is important to be profitable, but we are never going to make a fortune out of this business. [We] might just make a decent living and have good job satisfaction.... For me, if it was just about money, I would still work in London so it is a balance.”
(Respondent)

His behaviour in that regard is inconsistent with neo-classical economic theory's assumption that economic agents seek to maximise profit. As Cyert and March (1992) argue, this case shows that people may seek to achieve sufficient profit to meet their needs while gaining satisfaction in other ways.

9.5.0 The Approach to External Accountants

Until the recent crisis (see section 9.6.0 below) the respondent had used a SAP solely for financial accounting. He does not have an in-house accountant and he himself produces any management accounting that he uses.

9.6.0 The Use of Management Accounting

The respondent does not have a formal system for calculating the hourly rate for the servicing. The rate has grown from £10 an hour when he started working out of the garage to the current figure of £40, being adjusted from time to time to ensure profitability. He is aware of the amount of wages and other costs since he pays the bills and has tended to use the number of labour hours as well as the cost of parts and overheads in determining costs. This can then be increased by what he thinks the market will bear in order to produce an hourly rate.

The work tends to be seasonal, but the respondent knows the typical change in demand across the year. Formal budgeting is not used as he is aware of all aspects of the work and the firm's structure is simple. Payment is usually made when the bike is returned to the owner after service, so credit control is not a big issue. The respondent checks the bank balance daily and is aware of any cash-flow issues since he is familiar with the wage bill and other likely costs.

The firm does not produce formal management accounting information to work out the profitability on each job. The respondent accepts that some jobs may take longer than quoted for, whereas others may be completed more quickly. This approach was a significant factor in the crisis referred to in section 9.7.0.

The respondent has not used formal financial analysis while making capital expenditure decisions. When he rented the workshop, about £10,000 of expenditure was needed, so he took a loan, but did not analyse the benefit in a formal way. To some degree that may have been appropriate in that he needed to expand from working out of his mother's garage and so there was little alternative to the set-up costs. The loan has been paid off, but the respondent did not appear to have analysed, for instance, whether it would have been more cost-effective to phase the set-up purchases over time.

The simple structure of the firm and the respondent's central role in it mean that he has been able to keep the business in profit by planning from week to week with very little formal management accounting information. Small businesses run by a single person may not need much. Yet, as considered in the next section, there are signs that his approach has been insufficient to ensure optimal running of the business.

9.7.0 Evidence Regarding the Cost-Benefit for Small Enterprises of Obtaining Management Accounting Information from External Accountants

The respondent did everything himself when he started working from his mother's garage. In due course he started to use a book-keeper, changing to his current SAP when he converted the business to a limited company. At the initial meeting with the accountant he did not want to accept the level of service that was being offered and so the accountant reduced the service to fit what the respondent wanted to pay.

“I said this is how much I really want to pay and he said, ‘Ok, we will do it for that’. I do get a feeling that if I pay more, I can have more. It's not that he is not doing the work, but, if I went and said [that] I want a list of things, I will have to pay, which is understandable.” *(Respondent)*

Most years the profits from the busy spring and summer months can keep the business afloat through the autumn and winter. However, last November he had to take out a loan because the summer profits had been lower. As a result of this crisis he consulted the external accountant, who picked up a discrepancy between hours paid and hours billed. It turned out that this was because the respondent was under-quoting to avoid losing jobs despite the refusal rate being very low.

Although customer satisfaction is an important part of sustaining quality differentiation, the respondent's fear of losing customers meant that he was not allowing for a sufficient price to sustain the labour needed to differentiate on quality. This would have been picked up had the respondent been ensuring as part of cost control that labour-time paid for in

wages was accounted for in terms of the time expected for each job and idle time or working on other tasks.

In response to the respondent's request for help the accountant had drawn on his business experience to analyse the labour-hours data for quotes and wages, detecting a problem. He then discussed that with the respondent and jointly they reached a solution which made sense to both of them. This illustrates that management accounting is more than the use of standard tools (Jones, 2006) and also needs to involve the accountant in helping managers to understand, scope and find informed solutions to problems that arise.

A significant issue here is that the accountant found the anomaly, but could not have fully understood the cause of the anomaly without discussion with the respondent. On his side the respondent had not realised that it was worth checking labour hours. Kirby and King (1997) propose that the lack of use of accounting practices by small enterprises for management accounting information is based in an expectancy gap between what the accountants think they need to deliver and what owner-managers think accountants can deliver. In this case, in contrast, the accountant realised what action he needed to take. After finding the anomaly in the data, he began a dialogue with the respondent and jointly they found the cause.

This approach changed the respondent's understanding of both the action that he needed to undertake (more realistic quoting) and the ways in which management accounting could help. In critical realist terms the accountant saw the problem in the data, but for a strong solution to emerge it was necessary to modify the impeding structure arising from the respondent's limited understanding of the need for systematic analysis. The accountant achieved this through the discussion which enabled the accountant and the respondent to understand that the problem lay in the quoting. It also led the respondent to accept the need for change.

It could be argued that the problem would not have arisen if the external accountant had been supplying management accounting information from the start of his involvement with this firm, suggesting a lack of promotion by the accountant. However, it can be seen from the respondent's quote earlier in this section that the accountant did originally propose a more full service, but the respondent did not want to pay that much. The respondent stated that he knows he can seek further services if he is prepared to pay. The question of how far it is profitable for an external accountant to continue to seek to persuade a reluctant client to accept a management accounting service is discussed further in the cross-case analysis in Chapter 16.

The accountant initially accepted that the owner-manager was not interested in management accounting information. Nonetheless, by helping the respondent with his concerns, he learned about the respondent's business and increased the respondent's understanding of what an accountant could help with – he reduced Kirby and King's (1997) expectation gap. This brought the respondent to an initial understanding that formal processes are needed and that external accountants can be useful for this. The dialogue has also increased the respondent's trust that the accountant can deliver benefit. It is beyond the resources available to this research to interview the external accountant in this case, so it is not possible to assess his intent. The issue of dialogue and trust is therefore considered further in the cross-case analysis in chapter 16.

The respondent acknowledges that the accountant has begun to move his thinking from acting on immediate need to financial analysis.

“I think one of the things that the accountant has done, which is really good, is that he has made me think in a bit of a formal way. Before it was very much week to week.... I think that's how we used to work. We have got a little bit better, but certainly now we could go further.” *(Respondent)*

The respondent had been assessing the usefulness of the accountant based on an inadequate understanding and taken-for-granted assumptions about what management accounting analysis he needed. His intent in not using the external accountant for more management accounting is therefore better explained by OIE than by universal constrained optimisation as assumed by neo-classical economic theory.

9.8.0 Evidence as to Whether SAPs Lack Business Understanding

The respondent stated that he prefers accountants to react to requests for help rather than pushing a generic service. The issue of generic services and customisation has arisen in several cases so is considered further in the cross-case analysis in Chapter 16. The respondent's perspective is that the business is his and, when he has a problem, the accountant then helps with that problem. The accountant's willingness to act in this way has been an important factor in building the respondent's insight and trust in the accountant. The labour hours issue illustrates this, resulting as it did in a change in the respondent's understanding and approach to management accounting.

The labour hours issue also supports the finding of Perren and Grant (2000) that owner-managers of small businesses use their personal perceptions to filter information and services coming into their business so an accountant could act as a bridge for new ideas to enter. The outcome was not just a solution to the labour hours anomaly. The respondent began to see things differently.

“I don't want to expand. I don't want to do more bikes. I want to make more money from same number of bikes. That is to improve the margin. I have got that in my head now.” *(Respondent)*

However, this change has currently extended only as far as seeking to improve the quoting and realising that formal systems and management accounting advice can be useful. The respondent, with a background in mathematics and IT, is also aware that uncertainty and

ambiguity mean that management accounting tools are not sufficient, but they do provide evidence which can be used as part of a wider understanding of the situation.

“Mathematical systems have limitations when you try to model the real world environment. It does not matter how good you are, ... I don't think you can build a model that is perfect. It is best to use the information you have to get intuition and the human element and put them together. Don't just go on intuition. It is really important to have the facts.” *(Respondent)*

The external accountant's approach of demonstrating the benefit of management accounting information through dialogue has altered the owner-manager's perspective. However the respondent has not yet begun to explore the ways in which management accounting information could help him optimise the business's performance. The intent behind the respondent's approach to the use of management accounting is therefore still currently better explained by OIE in terms of seeking enough profit to keep the business afloat while finding reward in job satisfaction rather than by the profit maximisation assumption of neo-classical economic theory.

9.9.0 Conclusion

It is often the case that little formal management accounting information may be needed in this type of firm where the structure is simple and the owner-manager has a view over the whole business. However, there is evidence in this case that the level of management accounting information was insufficient.

The change in the respondent's thinking stems mostly from a recent cash-flow problem and the external accountant's approach in finding a way forward. The business understanding of the accountant led him to find an anomaly in the labour-hours data, but it was his discussion with the respondent that led to the immediate solution of more realistic quoting. It also changed the owner-manager's understanding of the benefits of the

management accounting information which he had rejected when offered by the accountant at their first meeting.

The recent cash-flow crisis has begun to change the respondent's attitude to management accounting. Even so, the respondent's intent overall is currently still less well explained by the profit maximisation assumption of neo-classical economic theory than by the broader influences expected in OIE such as seeking adequate profit but preferring to maintain a high level of job satisfaction.

Some evidence, especially the way that the accountant's help with the respondent's specific concerns developed the respondent's understanding of management accounting, has a relevance beyond this particular case so will be considered further in the cross-case analysis in Chapter 16.

Chapter 10 – Case Analysis: Micro Firms

10.1.0 Introduction

This chapter considers the cases of three micro-sized consultancy firms for which the business model, very small size and simple structure restrict the degree to which they need management accounting information and affect how practical it would be to employ or contract someone to produce it. (See section 10.5.0 below.)

The owner-managers were each interviewed for an hour and a half. Their informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective. This chapter considers these micro firms on their own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

The following sections briefly introduce each case and summarise its approach to management accounting information.

10.2.0 Case A: Micro Firm – Management and Finance Consultant for SMEs

A1. The Background of the Firm and the Key Actors

The firm is based in south-central England. The respondent set it up in 1998 as a consultancy to provide business support services to small firms. The owner-manager is self-employed, running the business on his own from his home. He has extensive experience of assisting small businesses in managing their work as he carried out a similar role in a bank prior to retiring and setting up his own consultancy service. He is an associate of the Chartered Institute of Bank Accountants (ACIB) and has an MBA degree. He attributes the success of the firm to his strong personal connection with clients over thirty years in the bank, in which he rose to become an area director. The respondent does not have very ambitious future plans as he sees this more as a retirement business through

which he gets the satisfaction of helping small businesses. That aspect of his approach is not consistent with the assumption of neo-classical economic theory that economic agents seek to maximise profit and is better explained by OIE (Scapens, 1994)

A2. Evidence of Small Enterprise Status

The turnover of the firm is approximately £50,000. The respondent does not employ anyone although he has a contract for a virtual office to take messages. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of Chapter 2.

A3. The Use of Management Accounting and Approach to External Accountants

Because of his banking and accounting qualifications, he is able to carry out any management accounting tasks himself to the limited extent to which they are needed in this micro-sized consultancy firm. He is retired and not seeking to maximise profit or accrue more income than is needed to cover his costs. He does not carry out the work to obtain personal profit and cross-subsidises work with small firms from the profit he makes on government contracts. His only overheads are the charge for the virtual office and travel to meetings to keep up contacts so he receives work. The only other business cost is his travel to clients. The respondent can take as much or as little work as he wishes and is able to plan sufficiently on a monthly basis. He keeps his accounts up to date and is aware of his self-employed tax liability. He knows his expenses for the month; whether he has covered them; and whether anyone has not paid him. He has no need for working capital other than to cover his travelling expenses and is always aware of his bank balance. He does not produce a formal budget as control and coordination functions are not relevant given the simple structure of the business. Similarly there is no need for responsibility and profit centres. Capital expenditure arises only in situations for which the item is essential such as replacing office furniture.

The respondent is an associate of several small-business support organisations, providing advice and training for their clients on a self-employed basis. However, his main source of work is currently through the central government Growth Accelerator programme, which links entrepreneurs of small businesses with advisors. The programme produces a contract containing an estimate of the time required and the fee that will be paid. He also takes on a number of independent cases without charging his full rate, but basing the fee on what the small businesses could afford to pay.

“I am comfortable with that because my overall income is sufficient for my needs and I am doing that to try and help the businesses because they could not afford what I charge.” (*Respondent*)

As with his future plans discussed in subsection A1 above, his approach in terms of charging is better explained by OIE than by the profit-maximisation assumption of neo-classical economic theory.

In short, the business model, small size and simple structure mean that there is very little need for management accounting information and so the limited degree to which the respondent uses such information is appropriate to his purpose and is consistent with neo-classical economic theory.

10.3.0 Case B: Micro Firm – Management and Impact Consultant

B1. The Background of the Firm and the Key Actors

The firm is a consultancy company based in central England. It was set up by the respondent in 2000 in order to offer market research, consultancy and facilitation to help businesses gain clarity on the importance of branding through strategic development and effective communication. It is increasingly involved in qualitative market research, business planning, strategic thinking and mentoring and coaching clients.

The respondent had worked as an account planning director for three London based advertising agencies, looking after the strategic planning functions within advertising rather than the media and creative functions. She then set up her own business working for three big brands. The respondent sees the main threat to her business as not being able to work due to illness because the business is mainly reliant on her.

The respondent has enough money to retire, but intends to keep working on the design of qualitative market research in order to increase the safety margin for her retirement income. As the market requirements change, for instance to greater use of web designs, she can subcontract those aspects. The respondent is interested in focusing her time on the staff development side of marketing. She accepts that this will not be a huge money earner, but will meet her needs. Her overall approach to the job is therefore now not consistent with the profit maximisation assumption of neo-classical economic theory and is better explained by OIE as seeking a satisfactory level of profit without seeking to maximise it.

B2. Evidence of Small Enterprise Status

The firm's turnover is approximately £100,000. The respondent is owner-manager of the firm and is the only person involved in the business. However, she often works jointly on projects with another consultant who has a separate business, each obtaining, leading and accounting for their own projects. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of Chapter 2 above.

B3. The Use of Management Accounting and Approach to External Accountants

The business is operated from the respondent's home so she does not have to pay for office space. Her overheads are therefore minimal so there is no need for formal break-even analysis. Since there are no employees, the main costs of a project are for subcontracted work, the respondent's time and her travelling expenses. The respondent usually requires 50% payment in advance and the rest on completion. Default by clients is rare, but the

initial payment means that subcontracting fees and expenses can be met if the client does default on or delay the final payment. The respondent would not be forced to default on her legal obligation to subcontractors.

The fee is set by what the market will bear. From the market price the respondent deducts the cost of subcontracting and travel. Since overheads are minimal, what is left is effectively her pre-tax income from the project. She then assesses whether the project is worthwhile in terms of the return for her time over the whole project against the risk that a more profitable project may turn up which she has to reject because her time is already committed.

The respondent is involved in only a small number of projects at one time and is aware of all the related costs and whether they have been paid. The business does not have a devolved structure. Formal budgeting is therefore not necessary. The only capital expenditure is for items which must be bought so the decision involves issues such as quality and price of various suppliers. The question of different payback rates between choices does not arise so the time-value of money is not relevant.

All in all, the respondent is aware of the financial side of the business without the use of formal management accounting techniques. In the circumstances greater mathematical precision would not significantly help in managing the business. As subsection B1 concludes, her approach to the business as a whole is to seek a satisfactory level of profit rather than maximising it and so is consistent with OIE rather than neo-classical economic theory. Her intent in not using formal management accounting information or contracting her external accountant to provide it is optimal in the circumstances and is consistent with neo-classical economic theory.

10.4.0 Case C: Micro Firm – Procurement Consultant

C1. The Background of the Firm and the Key Actors

The respondent is the owner-manager of a limited company based in southern England. He set the company up in 2010 in order to provide consultancy to the public sector on procurement and outsourcing by helping clients comply with the public contract regulations and conform with best practice.

There are a lot of consultants in this field and the respondent sees competition as strong.

“I say for every one consultant who is rushed off their feet and earning good money there [are] ten who are doing the odd thing here and there and wondering where the next pay is coming from. I am usually in the latter category.” *(Respondent)*

The respondent has a BSc in Technology with Systems Practice and an MBA. He trained as a project controls engineer and has thirty years of experience in business technology and systems consulting. The respondent is in his sixties, but has not been able to build up much provision for a pension so he has to keep doing what he can to maximise his income from his current work in order to improve his financial situation when he is no longer able to work. The main risk to his current business is his inability to work if his personal health deteriorates.

C2. Evidence of Small Enterprise Status

The respondent runs the business from his home and the only other employee is his wife, who provides clerical support. The turnover is approximately £40,000. The business therefore falls within the definition of a small enterprise used in this research as outlined in section 2.2.0 of Chapter 2 above.

C3. The Use of Management Accounting and Approach to External Accountants

The respondent has sufficient knowledge of accounting to produce management accounting himself, but sees precise calculation as irrelevant to a business like his.

“I can easily do most [management accounting], but there is no need to be terribly sophisticated in my kind of business.” *(Respondent)*

He tends to be working with only one or two clients at once so is aware of the costs and state of payments for each. The firm has very low overheads so formal calculation of breakeven is not needed. The fee for projects is based on what the market will bear, taking into account the cost of carrying it out. The main costs are the respondent's time and incremental expenses.

Deducting the incremental expenses from the fee therefore gives him the pre-tax income for the project as a whole. In the respondent's view, for a small business like his where the level of income varies, whether you accept a project is determined not just by the profit, but also to have cash in the bank to meet a bill. He is clear that he aims to obtain contracts which will maximise his profit, but has to deal with the uncertainty of what projects will come up in the area in which he has skill and a track record. Given that uncertainty, his view is that he may sometimes have to take on a project that provides less profit than he would like, but keeps him solvent.

That uncertainty also means that his income depends on what jobs come in so forecasting cannot be done in a formal way. Capital expenditure arises only in terms of items which are essential such as replacing a computer and in the respondent's view the cost becomes negligible if capitalised over several years. Since there are no departments and performance does not depend on other staff, there is no need for formal budgeting.

Formal management accounting information is therefore not necessary. Because of the uncertainty of what projects will come up, the respondent will accept a project even when the profit from it is less than he would like in terms of maintaining a desired level of personal income. Taking the rough with the smooth in this way allows him to remain solvent for when a more profitable project does come up and is a constrained optimal

strategy to maximise profit in the medium term in the light of that uncertainty. Overall, the fact that the respondent does not use formal management information is consistent with the constrained optimisation assumption of neo-classical economic theory.

10.5.0 General Conclusion over All Three Cases

Academic research has indicated that greater use of management accounting information would increase the robustness of small enterprises in general (Ng et al., 2013; Lucas et al., 2013). These three cases do not undermine this view, but they do illustrate that it may have limited applicability in those micro-sized firms with the following characteristics.

- a) A very simple structure;
- b) Minimal overheads;
- c) Limited use of capital expenditure;
- d) The details and costs of the few projects being carried out at any one time are known to the owner-manager.

In such cases the owner-manager may be able to make a sufficient estimate of the financial robustness of the business without the use of mathematical tools. Furthermore, using an external accountant to produce such information would be unlikely to provide enough benefit for the cost to be optimal for the business. Where these circumstances apply, as they do in the three cases examined here, it would be consistent with the optimisation assumption of neo-classical economic theory for an external accountant not to be used to supply management accounting information.

Chapter 11 – Zippy Accounting

11.1.0 Introduction

The respondent is the owner-manager of a small accounting practice. He was interviewed for approximately an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

11.2.0 The Firm's Background

The accounting practice is based in central England and provides a range of taxation and accounting services for SMEs. It was set up in 2008 with the aim of offering advice on bookkeeping, compliance services, payroll, tax returns and management accounting. The firm has a flat structure with ten full-time employees. The average turnover of the firm is £500,000. The respondent does not currently see competition as a major issue in that personal recommendations are bringing in a flow of new referrals which are increasing the practice's profit. The competitive strategy of the firm is not based on cost but on quality, communication and approachability. With regard to a formal five-year plan, the respondent sees maximum profit coming from adaptability rather than having a fixed view of where the practice will be a certain point in the future. The firm is profitable so in future they might possibly consider starting another parallel business.

11.3.0 The Respondent's Background

The respondent has a film degree from university. He wanted to run a business of his own so trained as a chartered accountant. He took three years to qualify and then worked for another firm for six to seven years before he started his own practice. He is of the opinion

that his film degree background gave him communication skills and an outside perspective that traditional accountants lack.

11.4.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

The respondent often works in collaboration with his clients in designing the content and format of management accounting processes. For one client, which was a not-for-profit limited company running a project to improve health and education in schools in Africa, the respondent helped them track income and expenditure accurately, ensuring their funds were used for the intended purpose and that timely financial progress reports were generated for donors. The board of the client firm was concerned that they did not have a system which met their needs. Their existing system produced management accounting information that was too detailed. The respondent's practice provided them with simpler information by producing punchy reports emphasising key figures, issues and risks facing the firm. This was in contrast to the detailed and very complicated reports produced by their previous specialist management accountants.

“These [clients] were not accountants [and] did not understand what the [reports] were at all. So we actually ended up preparing something, distilling it down to something much more simple; and sitting together on the sofa and talking about it; and that worked a lot.” *(Respondent)*

This illustrates that the respondent understands the need to distil the information in a report to include only what is relevant and meaningful to the clients, sitting with them to jointly arrive at an appropriate format. He is aware that the problem is not necessarily a lack of information, but can also be an excess of information which is not understandable or relevant to the client's needs. This awareness is in contrast to the findings of Reeb (1993) and Lucas et al. (2013) that accountants tend to produce generalised information which is not customised to each client's specific requirements. The respondent emphasises the importance of finding out what clients need by working with them to develop useful

information reports, so helping them to become confident that the information will be worthwhile. He is therefore seeking to reduce the gap between what owner-managers expect accountants' role to be and accountants expect owner-managers' needs to be (Kirby and King, 1997). He is also aware that developing trust with clients is important in building a successful relationship.

“Yes, you won’t get any trust if the person does not understand what you are doing.” *(Respondent)*

In interview the respondent illustrated anecdotally that his approach focuses not just on the quality of the practice’s accounting work but also centres round his use of communication skills and a willingness to work with his clients to tune the service that he is offering. He recognises that successful take-up of his services depends on developing clients’ trust that the benefit will be worth the cost. This business understanding of how to interact with his clients then shapes his rational calculation *ex ante* with the intent of maximising his practice’s profit in line with the assumptions of neo-classical economic theory.

11.5.0 Evidence as to Whether Accountants Promote Management Accounting Services Sufficiently

In line with the finding of Lucas et al. (2013) the respondent believes that accountants in general do not promote their management accounting services sufficiently. This view is considered further in subsection 11.7.0. In contrast, he himself reaches out to clients by suggesting advice when he thinks it is appropriate for clients. If the client wants to pursue it further, then he is happy to provide the service. He is clear that he promotes management accounting services in order to increase his profit, but he is also aware that doing the best for clients and caring about them also leads to increased profit. In his opinion it is necessary to point out to the client the value of a particular service, as he sees it, but in the end it comes down to whether the clients themselves believe it is worthwhile.

“Often we come across potential clients that we know we can do quite a good job for and provide real value for, but they don’t perceive that at that time. And if that is the case then the best thing for us to do is to just walk away.” *(Respondent)*

The respondent believes that different factors influence why clients do not perceive a service as being valuable. As found by Marriott and Marriott (2000), the respondent sees one factor to be cost, especially if a business is not making money. In his view, even for businesses making plenty of money, their business model may be such that these services are not worthwhile for them. Then there are also those businesses for whom the issue is not the cost itself, but just that they don’t see the benefit of the services. The respondent has concluded over the years of selling professional services that it is hard to the point of being an inefficient use of time to try to persuade people who are reluctant to buy a service. According to him, clients may have various reasons for their reluctance, but, whatever their reason, his professional time is better spent in finding new clients who do want his services rather than seeking to persuade existing clients who do not want a particular service.

One of his strategies for promoting services with clients is to build their trust. As explored in section 11.4.0, one specific way in which the respondent builds trust is to use communication and interaction skills to reduce the expectation gap between accountants in SAPs and owner-managers. In general terms the respondent believes that clients have trust in his practice because the practice does a good job and is responsive to their problems. Hence promoting the practice is not just about advertising or listing services on a web site. Doing good quality work and customising the service to the clients’ needs are also important forms of promotion. The intent behind his emphasis on building trust is therefore to increase the number of clients and services. His business depends upon personal recommendations and so by building trust the respondent believes that his practice will retain existing clients and attract others. His intent in promoting services in this way is therefore to maximise his practice’s profit in line with neo-classical economic theory.

11.6.0 Evidence Regarding the Profitability for External Accountants of Providing Management Accounting Services to Small Enterprises

The respondent believes that there is a gap in the market for providing management accounting services and seeks to exploit that. In his view management accounting services would be cost-effective for his clients. However, one of the problems as perceived by the respondent is that most small businesses are not interested in that type of service and so do not think that the benefit is great enough to warrant the cost.

“I can think of a business a few years ago where we said they are making between two directors about £500,000 a year and we suggested doing quarterly accounts. And they said, yes that sounds interesting, but ... they thought it will all be free; and they said having four lots of accounts will cost more than having annual accounts together and we said yes, but it will be far more useful to have them during the year. But their perspective was just different so we had to move on from it.” *(Respondent)*

As this quotation shows, the respondent thought that quarterly accounts would be cost-effective for the firm, given the current level of turnover and profits. The directors were interested, but did not see the change as worth the extra fee. Their reason is not known, but it may be, on the one hand, that they had a sufficient understanding of the increase in profit arising from such a change to make a reasonable estimate of the likely benefit. This would be in line with the profit maximisation assumption of neo-classical economic theory.

On the other hand, it might be, in line with OIE, that they wrongly undervalued the benefit of quarterly accounts because of institutionalised views. Either way, they were running the business and made a judgement, so the respondent's approach was to accept that their perspective was different from his and to not waste time trying to change their minds.

While the respondent continues to seek to turn the potential market into actual take-up of management accounting services, his view is that if an owner-manager does not see the services as worthwhile, it is not an efficient approach in terms of his time to keep on trying

to persuade rather than using the time to find new customers for the services that are wanted.

In the current circumstances of the practice when personal recommendations appear to be leading to a flow of new clients for traditional accounting services, the respondent has assessed that the possibility of relevant management accounting services should be raised with the client when explaining the annual accounts, but, if the client does not want to take it forward, further persuasion is not time well spent. This is a well-informed optimal analysis consistent with neo-classical economic theory.

11.7.0 The Respondent's View of SAPs in General

The respondent believes that the barriers to the greater use of external accountants for management accounting stem not just from owner-managers, but also from accountants' lack of skill in communication and presentation. He is of the opinion that accountants perceive themselves to be promoting their services well, but he does not believe that is really the case. This is consistent with the finding of Lucas et al. (2013) that accounting practices do not tend to be proactive. According to the respondent, on the surface accountants appear to be modern, approachable and proactive, but underneath they have not changed much.

In his view the syllabus for the training of chartered and certified accountants is mainly dictated by big accounting firms. These firms want people to obtain the technical skills for tasks such as account preparation and auditing and do not view soft skills such as communication to be a high priority for such training. His experience of interacting with big accounting firms over joint clients is that their written communications are also poor. In the respondent's view, rather than owner-managers receiving training on accountants' jargon, it is accountants who need to improve their communication.

“It would be better for accountants to improve speaking the kind of plain English that their customers use.” *(Respondent)*

This personal view has developed from the respondent’s contact with unspecified accountants over a number of years and so it is not possible to interview those particular accountants themselves. However, it may indicate a tendency among accountants for normative isomorphism in line with NIS as a result of their training and subsequent peer interaction (Dimaggio and Powell, 1983). The effect could be to deter owner-managers and contribute to the barriers to greater use of management accounting services. This issue will be considered in the cross-case analysis in Chapter 16 and could be taken forward in future research.

11.8.0 Conclusion

While the respondent sees the importance of quality, timely work in financial accounting as an important form of promotion, he draws very much on his communication and interaction skills to work with clients in developing a joint understanding of their management accounting needs. In this way he seeks to build trust in his clients that his services will be cost-effective and will resolve the specific problems that are concerning them.

However, despite the centrality in the respondent’s thinking of customising services to the clients’ needs, he is also clear that not all clients will believe that a proposed service is worthwhile. However much he may see the offered service as cost-effective for the clients, if they are not convinced, then he believes that it is best to accept that and move on. In that way he can spend the time instead on clients who do want a service.

His acceptance that you cannot convince everyone is not counter to the respondent’s view of the centrality of soft skills in building up trust. He believes that the training of accountants should be changed to cover such skills, but sees the syllabus as governed by

the need of the large accounting firms for accountants who have the technical skills for account preparation and auditing. Their emphasis is not on customising services to the specific support needed by small firms.

Although the take up of management accounting is low, it is plausible that the emphasis on building trust and interactively increasing understanding have contributed to clients' positive view of the practice. This is reflected in the fact that personal recommendation is bringing new clients. Hence this emphasis can be seen to be acting as promotion for services in general. The different strategies that he adopts to increase trust and understanding are therefore pitched to maximise profit for his firm and so are in line with the assumption of neo-classical economic theory of profit maximisation through optimisation.

Chapter 12 – Recent Accountants

12.1.0 Introduction

The respondent is the owner-manager of a small accounting practice. He was interviewed for approximately an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an *ex ante* perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

12.2.0 The Firm's Background

The accounting practice is based in central England and provides a range of professional services to small and medium enterprises. It was set up in 2012 so was in its second year at the time of interview. Its aim is to provide services on business planning, development and consultancy, compliance services, tax returns and management accounts. The owner-manager is the only person working in the practice. The average turnover of the firm is £20,000 a year. The competitive strategy is to focus on quality. Although the respondent is aware that owner-managers see accounting fees as an issue, he does not believe in competing solely on price as it is impossible to beat every price and clients are aware that quality also matters. This surprising view has been expressed by other SAP respondents so is considered further in the cross-case analysis in Chapter 16. As far as medium-term planning is concerned, his approach is to ensure that his actions are ethically appropriate in whatever circumstances arise rather than formally specifying what those circumstances ought to be. Initially the respondent built up clients by attending business networking events and through the website that he designed. The website is still his main source, but he also responds to accountancy questions on internet forums. Some referrals are based on recommendation.

12.3.0 The Respondent's Background

The respondent passed the professionally recognised ACCA qualification while working for a chartered accountancy firm in London. He worked for several other accountancy firms in London, but when he and his family moved to Buckinghamshire, commuting to London was no longer compatible with managing child care so he started his own accounting practice. Before moving into accountancy he had done some computer training and taught himself web design. He ran a small IT firm for a year and a half, so he has some understanding of the challenges faced by small businesses.

12.4.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

From time to time the respondent offers his clients management accounting advice and information in the narrow sense of formal techniques like costing, but believes that it is more important to help clients with management accounting advice in the wider sense of helping with overall business development, such as advice on how to attract new customers.

“I try to sell them this service in terms of that whole business development package but not a management accounting service by itself. It is just my personal thing. Again it is your attitude towards the money. That is one service which I can sell and make money, but would that be productive for my clients?” *(Respondent)*

The respondent mentioned an instance of a client who was a web-designer. He looked at the client's business model and warned the client that he was too dependent on a single customer. In effect the web-designer's customer was reducing costs by outsourcing to the web-designer. The web-designer himself was therefore at risk of bankruptcy if his customer found someone cheaper to supply that service. That was indeed what happened. It is significant that the respondent moved beyond management accounting figures to see a risk to the sustainability of the client's business. Furthermore, rather than merely pointing out the problem, the respondent suggested a practical way forward: that the web-designer

would be better employing or contracting staff to do the web programming. This would allow the web-designer himself the time to make his own business more financially robust by extending his customer-base.

The respondent is aware that management accounting information in the narrow sense is only part of what is needed to make a business sustainable.

The respondent probes during the initial meeting with his clients to see if they have any specific business needs. He offers advice if the clients are receptive, but believes that it is up to the client to take his advice or not, recognising that they will respond in different ways depending on past influences. His view on this is consistent with the assumption within OIE that people's decision-making is influenced by social and other personal factors.

If the client wants significant time to be taken for continuing business analysis such as monthly accounts, then that would have to be done as part of the respondent's premium service, which includes management accounting. He is aware that the extra cost of that would deter clients and appreciates that owner-managers already tend to have the view that any contact with an accountant is likely to result in further fees, as management accounting research has illustrated (White, 1983; Marriott and Marriott, 2000). The respondent is conscious of the need to build up trust that it is safe and worthwhile for his clients to contact him. He therefore encourages them to discuss with him as part of his basic fixed fee if any issues have arisen, rather than leaving it until they are in trouble. Furthermore, he makes clear that his fixed fee also covers discussing with him when the client is planning to do anything that may have financial implications, such as the tax effects of buying a new vehicle.

The evidence discussed in this section shows that the respondent understands some of the problems which small businesses are likely to face. He is interested in providing advice to help them become more sustainable, but recognises that owner-managers have a right to their own opinion as to whether his help would be worthwhile. He is aware that the opinion of many owner-managers about accountants combined with the limited commercial understanding of most accountants creates differences in expectations (Kirby and King, 1997). These act as barriers to the take-up of the management accounting services offered by external accountants. The respondent has sought to find ways to reduce that by taking an interest in business support and demonstrating his knowledge of the issues which small businesses may face. In this way he is seeking to determine the optimum approach to maximise his practice's profit in line with neo-classical economic theory.

12.5.0 Evidence as to Whether Accountants Promote Management Accounting Services Sufficiently

The respondent strongly believes that the risks to financial sustainability of small businesses cannot be detected solely by management accounting information in the narrow sense explored in the previous section. He therefore offers the premium service including management accounting such as monthly reporting and advice on business development. However, he accepts that few clients are likely to want to pay the extra fee, so he also emphasises, as part of his flat-rate standard fee, that he would rather his clients discuss with him when issues arise instead of doing something that gets them into trouble.

“Common feedback from my clients is, ‘You scare us a lot’. I have to. If I didn’t say [such things] then they would be out of business soon.” *(Respondent)*

He therefore raises issues which he sees as a risk to the client's business when he is discussing statutory work such as annual accounts. He also raises the availability of his business development service, but accepts that businesses large enough to benefit from such a package would be more likely to have an in-house accountant. In his view the need

for certain management accounting tools is less in small businesses, especially for service businesses. Standard basic management accounting reports can be run off from clients' own cheap accounting software or by using cloud systems if they want them. He doubts whether many of his clients would read management accounting reports if he provided them. He accepts that management accounting systems may be informal in a small business, as proposed by Ng et al. (2013). Where the owner-manager has detailed personal awareness of all aspects of the business, formal processes such as budgeting are unnecessary. However, the respondent sees at least some management accounting – such as breakeven, cash-flow monitoring or having sufficient awareness of profit to avoid breaching the law by overdrawing dividends – as essential for even micro production businesses. The issue in his view though is that his clients would be unlikely to benefit from the accountant merely emailing management accounting reports. What they need is to be alerted to wider business risks. The respondent wants his clients to do well in business and so he flags up the risks he sees for the business when he is doing standard work for the client, but it is up to the clients whether they take his advice.

“If they are not listening to those business development warnings and signs then obviously they will go bust anyway, regardless of if I am giving them management accounting information or not.”
(Respondent)

He therefore promotes management accounting services both by offering an additional charged service and through discussion of issues as part of statutory compliance work. However, he recognises that one of the best ways of promoting his own business is to help his clients' businesses to stay afloat especially in their early years.

“If I can contribute to the client's business development side, then that will make sure that they are in a healthy condition, which means that they can stay in business longer, which, to come back to me, [means] that I can keep them as a client for longer.”
(Respondent)

The respondent therefore strongly believes in helping his clients to keep their businesses financially sustainable by promoting services beyond statutory compliance work. This is not only on the narrow basis that a client whose business has collapsed is no longer a source of income for his own business. As illustrated in section 12.4.0, he is also interested in helping clients to make their businesses more financially robust. However, he is realistic about what can be achieved when many of his clients are not interested in management accounting reports or more general business development analysis. Yet it is not feasible to spend the time to become sufficiently involved in the clients' businesses to be able to detect business risks, given that owner-managers are unlikely to want to pay further fees. The respondent uses the twin approach of raising the possibility of a more comprehensive charged service on the one hand while encouraging owner-managers to contact him as part of his basic flat fee if issues arise. To that end he is promoting awareness of management accounting benefits to the extent that is feasible while working in what he sees as an ethically appropriate manner in order to maximise the profit of his practice in line with neo-classical economic theory.

12.6.0 Evidence Regarding the Profitability for External Accountants of Providing Management Accounting Services to Small Enterprises

As mentioned in s.5.0, the respondent sees a certain amount of management accounting information such as breakeven as essential for even a micro firm involved in production, although less so for a service business with fewer overheads. However, merely supplying such information will be of little benefit if the client is not interested in it.

“If I see that [the clients'] attitude towards [such] information is not constructive, ... then even if I can manage to sign them on for a management accounting service, it won't help them and the firm will eventually go bust.” *(Respondent)*

If they are interested, then, in the respondent's view, they could print themselves standard management information reports using fairly cheap accounting software. The respondent

does not see it as financially feasible for an external accountant to be inspecting the client's management accounting data on a frequent basis unless a premium fee is being paid, so it is essential that clients are regularly doing so themselves in order to detect issues as they develop. In the respondent's opinion an external accountant will not know the business well enough to detect some threats without frequent contact, yet owner-managers are more interested in direct techniques of expanding the business than in ensuring that they are able to detect unexpected structural weaknesses. To the extent that this reflects the actual behaviour of owner-managers, it could be seen either as failing to optimise because of institutionalised perceptions or as having a different, and optimal, perspective from the respondent in line with neo-classical economic theory. In order to bring in the evidence from the interviewed owner-managers, this issue is considered further in the cross-case analysis in Chapter 16.

Especially when small businesses are fairly newly formed, the respondent sees his involvement as more likely to be beneficial when it comes to the broader aspects of management accounting concentrating on business development – including such things as finding and retaining customers and creating a balanced customer portfolio to minimise financial risks. However, most of his clients tend to see the accountant's role more in terms of carrying out statutory compliance work and reducing tax liability than management accounting. The respondent believes that this has led to market-pressure on accountants to reduce their fees so it is not financially feasible without an additional charged service for accountants to become sufficiently involved in clients' businesses on a regular basis in order to become aware of business risks at the time they begin to develop.

In the respondent's opinion small businesses are likely to need some management accounting information to remain robust and avoid legal sanction. However, owner-managers tend not to see such services as cost-effective.

“Well sometimes they think it is not value for money. Again price is a factor. If we have to produce for them monthly management accounts then it is extra cost for them.” (*Respondent*)

Because of the simple organisational structure and nature of the relationships within small businesses and with their customers, this view may be well-based as Ng et al. (2013) have pointed out. The respondent believes that owner-managers of small businesses would tend not to see management accounting information as a sufficiently high priority to read it, given their many business tasks. He also sees it as important to make the information relevant and avoid unnecessary complexity, but even so, the owner-manager needs to understand and accept its value if it is going to be useful. The respondent's view on this could be seen as consistent with academic research (such as Fearn, 1984 and Lucas et al., 2013) that owner-managers have a limited understanding of what accountants can provide. Alternatively, it could be that owner-managers understand the information but do not see it as sufficiently relevant given their personal background or perspective and the limited complexity of their business's systems (Ng et al., 2013). The views of owner-manager respondents need to be considered in evaluating these options so this issue will be considered further in the cross-case analysis in Chapter 16.

As has been drawn out already in the analysis of this and other cases, there are limits to how much management accounting can be done without an additional fee. There are also variations in how useful different aspects of management accounting are for small businesses. The respondent has to tread a careful path if management accounting services are to remain profitable in the light of these limitations. In summary, he remains committed to flagging up risks to his clients so they can keep their businesses financially robust, checking with new clients to see if there are issues which require specific work and offering a further costed service, but also encouraging clients to contact him as part of his basic fixed fee service.

By encouraging contact as part of the fixed fee basic service he leaves the door open to providing extra charged work if the client is interested. His approach to the provision of management accounting services is on the one hand to avoid becoming engaged to an unprofitable degree, but on the other hand to raise awareness of issues that come to his notice in carrying out his standard services. His intent behind this is clearly consistent with maximising his practice's profit in an ethical way and is consistent with neo-classical economic theory.

12.7.0 Conclusion

This chapter examines a SAP perspective, but it is important that the evidence here is also considered in the cross-case analysis in Chapter 16 in order to set it alongside evidence from owner-managers. There is a limit to the analysis which can be carried out in a single-case chapter.

The respondent sees a potentially profitable market for management accounting in its wider sense. He believes that it would be beneficial for his clients, particularly new businesses, but also for his practice in that a bankruptcy prevented is a client retained.

The respondent emphasises the need for management accounting in terms of helping his clients to understand threats to their business which would not be detected from merely reading the standard reports available on accounting software. While support such as monthly accounts would come under his more expensive premium service, he aims to encourage clients to contact him as part of his basic service if they have concerns to discuss. He is therefore seeking to find the optimum balance for his practice in line with neo-classical economic theory.

He believes it is best for his clients' businesses if they print off and understand the value of the reports available in their commercial accounting software. He also draws their attention to risks in their business when feeding back on annual accounts and believes in the

importance of wider business support. However, he finds that most of his clients are not interested in services beyond the statutory requirements.

The practice had operated for less than two years when the respondent was interviewed so its business context may be shaped by the client-base that can be built up in that time. The overall picture is of an accounting practice where management accounting support is seen as important, but where the costed package that is being offered does not attract the interest of owner-managers. The respondent's provision of business development support is therefore constrained by owner-managers' low take-up. Within that business context the respondent's overall intent is to draw owner-manager's attention to areas where their business could benefit from such work, but to balance the time taken up by management accounting work against the limited income which it produces. This overall intent is in line with the profit-maximisation assumption of neo-classical economic theory.

The divergence between the views of accountants and owner-managers (as seen by accountants) has been reflected in other SAP interviews and will be considered further in the cross-case analysis in Chapter 16.

Chapter 13 – Real-Time Accounting

13.1.0 Introduction

The respondent is the owner-manager of a small accounting practice. She was interviewed for approximately an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

13.2.0 The Firm's Background

The accounting practice was started in 2001 by the respondent and consists of six full-time employees. It seeks to differentiate itself from other accounting practices by a commitment to work closely with businesses through the use of information technology. The firm's annual turnover is £300,000. The clients range from start-ups to large companies and are from a broad range of service, manufacturing and retail sectors. The five year plan of the firm is to increase turnover to over £1 million.

13.3.0 The Respondent's Background

The respondent is a Fellow of the Association of Chartered Certified Accountants. She enjoys working closely with her clients and is committed to providing a technology-driven professional service to help them achieve their full potential.

13.4.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

At the end of the annual accounting period the respondent sits with the client and goes through the accounts, giving advice on improving the running of the business and suggesting management accounting services to help with this. Take-up of such services is low, but engaging with clients on business issues helps to build the business relationship.

She illustrated this anecdotally concerning two clients whom she advised to increase their prices. They feared that they would price themselves out of the market, but investigated their competitors' prices and found that the competitors were charging more than them.

While this is just one incident, it illustrates the respondent's view that developing trust plays an important role in building a successful business relationship between accountants and their clients. This aligns with the conclusion of Kirby and King (1997) that it is important to reduce the credibility gap between accountants and owner-managers by improving mutual understanding of their roles and needs.

In line with the finding of Lucas et al. (2013) that owner-managers are not aware of the potential of using accountants as business partners, the respondent is also aware that when small firms start up their business, they do not understand how accounting practices can benefit them.

“They are scared of us. They do not understand anything we are saying to them, realistically. They understand buying and selling or whatever it is they are doing and that's it. From the accountants' perspective we have got to get better at trying to communicate how we can help them.” *(Respondent)*

The respondent believes that SAPs like hers have a greater awareness of the needs of small businesses than big practices because she is running her own small practice.

As mentioned in section 13.5.0 below, the respondent uses innovative ways of informing clients of what her practice can provide, which illustrate that she is aware of the need to help owner-managers to understand what is available and is seeking to reduce a barrier, as she sees it, to the take-up of managing accounting services. Seo and Creed (2002) point out the way in which actors are surrounded by a variety of different institutions which may have contradictory effects. Actors' awareness of these contradictions may bring them to a 'conscious choice point' (Seo and Creed, 2002, p.224) when they decide to modify

institutionalised behaviour in order to reduce a contradiction. In this way the respondent is aware of the institutional contradiction in the behaviour of owner-managers for not seeking to use management accounting information; and also of accountants in practice for not ensuring that owner-managers understand what services they can provide and how that would benefit the owner-managers' businesses. The respondent has therefore decided to modify this counterproductive institutionalised behaviour of accountants by prioritising the promotion of her practice's management accounting services. In critical realist terms the respondent is seeking to modify the existing institutions influencing the behaviour of both accountants and owner-managers (Archer, 1995).

The fact that the respondent has made an effort to lessen the barriers by trying innovative ways of building trust with her clients indicates that she has formed a view of some of the structures maintaining the barriers. In line with neo-classical economic theory she has sought to maximise her practice's profit by developing various ways of counteracting the lack of understanding of what her practice can provide.

13.5.0 Evidence as to Whether Accountants Promote Management Accounting Services Sufficiently

The respondent expressed strong views on the lack of promotion by most SAPs. One of the ways in which she has sought to differentiate her practice has been by strong promotion, including the use technology-led techniques.

In the respondent's view most SAPs perceive themselves to be proactive, but are assuming that without critically questioning it.

“I don't think that accountants have been proactive. No. I think they have a website that says they are proactive and that's what they consider being proactive, that they have a website. I don't know what they quite assume by 'proactive'.” *(Respondent)*

This comment by the respondent is consistent with the finding of Lucas et al. (2013) that accounting practices tend not to be pro-active in promoting management accounting services.

In the respondent's view the communication of accountants in the past has been purely on the fact that they are a professional body and that the clients should do what they are told to do, suggesting that the training and peer ethos of the profession create normative isomorphism in line with the assumptions of NIS (Perrow, 1974; DiMaggio and Powell, 1983) which becomes self-reinforcing as professionalised accountants interact. Part of the problem according to the respondent is that accountants are not listening to their clients.

In contrast to her view of SAPs in general, the respondent in her own practice has particularly emphasised reaching out to her clients to provide them with information, for instance, sending newsletters out quarterly to clients electronically and also a paper version to those who cannot access the electronic version. However she believes that not all clients who have been sent a newsletter would have read it, so she also uses telephone contact to encourage her clients to look on her web site for services that may benefit them. In addition to this, whenever the firm does anything for them, she also sends additional emails and letters to remind them of all the services that the firm can help them with. Her aim is to keep in the minds of the practice's clients that the firm can offer services if they need it. In her view there is always more promotion that could ideally be done, but the current level is what can be achieved in the time available.

However, in the respondent's view there is another side to the provision of management accounting services: that clients are not receptive to the advice the firm is offering because they do not understand what the benefit of the service would be.

“It's all very well us saying that we offer the service, [but] some clients do not understand what management accountants are or

what benefit they are going to give them and, if you say to a client what do you want from your management accounting, they will look at you blankly.” *(Respondent)*

The respondent believes that for the potential market in providing management accounting services to lead to more take-up, not only must accountants in SAPs market their services pro-actively, ensuring that clients know that the services exist, but also the accountants must get across to their clients that using management accounting services would be cost-effective for them. In her view it is only in this way that take-up will increase. The intent behind her emphasis on promotion is therefore to increase take up of services and so to maximise her practice’s profit in line with neo-classical economic theory.

13.6.0 Evidence Regarding the Profitability for External Accountants of Providing Management Accounting Services to Small Enterprises

The respondent is of the view that the management accounting services that she offers would be cost-effective for the small enterprises, since they would be able to increase their income or reduce their costs as a result. However, the low take-up raises the question as to whether the provision of such services can be profitable for accounting practices.

The respondent believes that one cause of the low take-up is the difficulty of developing a workable management accounting relationship with owner-managers when they do not understand the information provided, or they do not follow her advice in implementing it.

“For some you can give all the information in the world, but unless they understand how to use that information and listen to your advice, you are going nowhere.” *(Respondent)*

She gave examples of occasions when she succeeded in agreeing a plan with her client, who accepted at the time what they needed to do, but went off and did something different. They then came back and told her that it did not work.

Because the market is changing, clients are looking for more from accountants. The respondent therefore sees a potential market for providing management accounting services to small businesses. However, she believes that owner-managers do not know what they are looking for. So when accounting practices like hers seek to add what they perceive as good value for small businesses, owner-managers fail to understand how the accounting practice can benefit them. In the respondent's view it comes back to the understanding of owner-managers. The respondent continues to seek to overcome that lack of understanding through the promotion referred to in the previous section. Furthermore, she believes that external agents like bank managers could help to remove the barriers by pointing out the benefits of management accounting information. She also believes that the barriers could be removed if accounting practices were to position themselves like a one-stop-shop to their clients, offering insurance services, tax, management accounting and so on as a package like solicitors do. Then clients have to pay for that basket if they want the service.

The respondent is able to work with some clients on management accounting, but believes that it is important to identify the right type of client who is prepared to listen and with whom she could develop a business relationship in order to be able to provide value.

“So it is picking the right client and I do agree that if you pick the right client – and you can almost tell and that comes from experience as to whether or not somebody is actually understanding business – and if they are then you can help them. But I can sit in front of a client all day long and explain to them how they could make their businesses better and you get almost the negative.”
(Respondent)

This analysis by the respondent of types of client for whom she uses different approaches is consistent ex ante with neo-classical economic theory as she is attempting to maximise profit for her practice.

There are occasions when the client needs specialist advice (for instance in relation to the sector in which they work) and her practice arranges for this to be provided by an appropriate consultant. The respondent can then provide management accounting services embedded in the work of the consultant, so the owner-manager is receiving the service indirectly, but can see the benefits of it. The respondent is therefore seeking to maximise the profit of her practice in line with neo-classical economic theory by finding ways of bringing the benefit of management accounting information to the attention of the owner-manager and obtaining income for the information indirectly through the charge made to the owner-manager by the consultant.

Her assessment of the viability of this area of work is that, despite the limited current take-up, there continues to be potential for management accounting services to develop. It therefore remains central to the running of her practice that she continues to seek ways of increasing owner-managers' awareness of the benefits.

13.7.0 Accountants' Views of Owner-Managers

Kirby & King (1997) argue for the need to reduce the credibility gap between owner-managers of small businesses and accountants in SAPs. Section 13.5.0 considers the respondent's views of the tendency of accountants not to promote their practices sufficiently; and the way in which that has contributed to a lack of understanding by owner-managers as to how management accounting information can help their business. As a result the respondent sees lack of promotion as one of the barriers influencing the low take-up of managing accounting services. However, she also believes that owner-managers themselves are contributing to the barriers in three main ways:

- a) that owner-managers' perception of the role of external accountants tends to be limited to historical data such as the preparation of annual accounts and the resultant tax liability;

- b) that owner-managers do not see the relevance of management accounting techniques for their business;
- c) that a lack of financial understanding by owner-managers limits their appreciation of the benefits of management accounting techniques.

This interpretation of the intent behind owner-managers' reluctance to take up management accounting is one person's opinion, albeit based on over a decade of working as an accountant with many owner-managers. Given the resources available to this research, it has not been feasible to interview those owner-managers and so no conclusions are drawn about the actual intent of those particular managers at the time. However, in order to provide triangulation for the findings, these points will be considered further in the cross-case analysis in Chapter 16 alongside the evidence from those owner-managers who have been interviewed in the research.

13.8.0 Conclusion

The respondent demonstrates understanding of small businesses to the degree that she is aware, firstly, of the need to make her clients trust that she understands their business and, secondly, that she must help owner-managers to be better informed of the ways in which accountants can help them. She therefore shows that she understands some of the barriers and her intent is to reduce those barriers in order to increase take-up of services and so maximise her practice's profit in accordance with the assumptions of neo-classical economic theory.

In the respondent's view accountants tend to lack the ability to communicate and assume that their professional status is sufficient promotion. In contrast she uses emails and newsletters to keep in her clients' minds how the practice can help them. Her intent in using extensive electronic promotion is to increase that understanding and hence the take-

up of services in order to maximise the profit of her practice in line with neo-classical economic theory.

Despite the low take-up, the respondent believes that management accounting services would be cost-effective for her clients. She therefore sees a potential for the take-up to increase provided owner-managers understand how to use the information and are prepared to follow her advice. In her view there is a general need, firstly for owner-managers' financial knowledge and understanding of business to be increased and secondarily for a cultural change in their attitude to accountants so owner-managers are more prepared to accept advice from them. Meanwhile she continues to emphasise strongly to her clients the value of management accounting services.

What is clear throughout the issues raised in this chapter is that the respondent's approach to the different aspects of running the practice are based on the intent to increase the take-up of management accounting services and so maximise profit in line with neo-classical economic theory.

As in other SAP cases, the respondent sees owner-managers as one of the main sources of barriers. The issues raised in this case on this and other matters are therefore considered further in the cross-case analysis in Chapter 16.

Chapter 14 – Planner Accountants

14.1.0 Introduction

The respondent is the owner-manager of a small accounting practice based in Oxfordshire. The interview was carried out at the respondent's premises, lasting for an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

14.2.0 The Firm's Background

The accounting practice, set up in 1987, provides taxation and accounting services including management accounting to clients ranging from people who have not yet started their business through to those who want to close it. There is one full-time employee so the organisational structure is simple. The average annual turnover is £100k. The respondent stated that firm competes on quality rather than price. Since all the SAP respondents gave similar answers which raise questions in economic terms, this point will be considered further in the cross-case analysis in Chapter 16. Most of the clients are based locally and, contrary to what one might expect for a small town with at least 12 accounting practices and many others in nearby towns, the respondent said that he did not see the competition as particularly fierce. This again is part of a pattern among SAP respondents which begs questions and is considered further in the cross-case analysis. His future plans are to secure more fees and to work much more efficiently through technology and outsourcing so he has more time to himself. He sees the main threat to his business as the risk that a client might unreasonably form a negative view of the practice, damaging its reputation.

14.3.0 The Respondent's Background

The respondent is a chartered certified and chartered management accountant. Before setting up his company the respondent worked in financial planning at a major international vehicle manufacturer so his background had mainly been in forward planning. The respondent has also been tutoring over the past twenty years on a creativity course at a university. He sees this experience from outside accounting as influencing his approach as an accountant.

14.4.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

The respondent believes that owner-managers of small firms find it difficult to acknowledge the need for help from accountants.

“They have a huge self-belief in starting up and progressing a business and it is very difficult for them to acknowledge that they could be helped. But if you can give them a specific cash instance, then immediately they are receptive.” *(Respondent)*

This quote reflects the view of Ng et al. (2013) that owner-managers may be resistant to advice from outside and tend to be closely attached to techniques and approaches that they have themselves created. They therefore control the information and systems that enter the business from outside (Perren and Grant; 2000). In the respondent's view the key to overcoming this is to establish trust by convincingly demonstrating a financial gain. He illustrated this by a new client for whom he had spotted a tax saving of £2,600 and so had been able to immediately put the relationship onto a good basis. In this way trust can be developed so management accounting issues can be raised. He is of the opinion that owner-managers of small businesses do not understand the benefits that management accounting can bring so it is important to wait until you can find a financial benefit that is specific and concrete.

“What we do is free up time so they get actually more time and we start off at a price that is not a problem to them.” *(Respondent)*

In line with the view of Marriott and Marriott (2000) the respondent pointed out that owner-managers of small businesses see the preparation of annual accounts as a compulsory expense to meet legal requirements. They do not like to spend money on this sort of statutory requirement, let alone to pay an additional fee for management accounting. He tries to get past this view by making clients feel that they are in charge and that his role is to help them take things ahead the way they want.

“The owner-manager’s comfort zone is putting his hands round the company and taking it forward and not necessarily letting in accountants for help.” *(Respondent)*

This view echoes the point made by Ng et al. (2013) that owner-managers’ motives affect the management accounting services adopted by small businesses and the value that is given to such services.

The respondent tries to reduce the barriers to the take-up of management accounting services by using innovative ways of working with clients. In contrast to some accountants whom he sees as being satisfied with the income from compliance work, he seeks to build a rapport with his clients so they have sufficient trust to be prepared to accept management accounting services. This view that the respondent is different from other accountants has been expressed by other SAP respondents and is considered as a whole in the cross-case analysis in Chapter 16. Another way in which the respondent builds rapport is by suggesting an improved business approach such as asking which is the best-selling product and then recommending that the client should create a different but similar product.

In these ways he is seeking to find the optimal means, in terms of his perspective, with which he can maximise his practice’s profit in line with neo-classical economic theory.

14.5.0 Evidence as to Whether Accountants Promote Management Accounting Services Sufficiently

The respondent networks at places where entrepreneurs meet in order to build a rapport with them. He is of the opinion that not all entrepreneurs he talks to will be interested, but if the chemistry is right, a business relationship can be built. Once a client is signed up, the respondent sees an important aspect of promotion to be the development of acceptance that he can deliver worthwhile benefit to the client. In his view the best approach for promoting a management accounting service is to link the service to a financial benefit and then offer a deal involving payment on results.

“Well, we can spot with just talking with them that there is a big saving: we can get you ten thousand pounds worth of tax back; are you interested? And they say, we are. Of course they are. And if they are, we have a very simple, very fair letter that we both sign which says we will go ahead and do this; we want a quarter of the savings; you can have three quarters. Shall we start? And they say yes.” *(Respondent)*

The respondent has a point: spotting tax savings is a powerful means of gaining a client’s acceptance. The gains of management accounting, however, are harder to quantify in a convincing manner. However, as mentioned in the previous section, a tax-saving can get the business relationship onto a good footing so the client is more willing to accept involvement by the accountant. It also has a wider effect by creating trust that the accountant will deliver value. Nonetheless, the respondent is clear that the positive effect creates an opening for charged management accounting to be broached, but does not ensure that offer will be accepted. Take-up remains low where the level of work involved in the service requires a significant fee to be charged. On the other hand, management accounting benefits can sometimes be quickly and easily demonstrated. The respondent gave an example of the international development officer of a charity who was spending a huge amount of time on financial recording and analysis. He therefore provided a

management accounting service to reduce the opportunity cost of the time taken, so allowing the international development officer to focus on core business activities.

For all businesses the respondent sees the need to ensure that cash and debtor management is being carried out efficiently so the business is safe. He therefore checks that as a matter of course. Beyond that the respondent believes that if his clients are happy with his work, then they are more likely to be prepared to accept services. Promotion through his style of work and marketing specific management accounting services are central to his approach. He is of the opinion that accounting practices in general do not market their services well. This is consistent with the finding of Lucas et al. (2013) that accountants are not proactive when it comes to promoting management accounting services. The cross-case analysis in Chapter 16 examines SAP views on promotion in the wider context of owner-manager's view of their needs.

The respondent states that he has a clear objective to help his clients make more money, because this in turn makes them able, and more willing, to pay him more fees. From the respondent's perspective promotion is not just ensuring that clients know of services, but is rather a style of working which increases his business's reputation so retaining clients, attracting new clients by recommendation and developing trust that his services will be worthwhile. This approach has much to commend it in relation to advice and assistance where the benefit is visible and can be quantified in specific terms, such as tax savings. However, to summarise the points raised earlier in this section, the outcome from management accounting tasks cannot often be quantified or proved. Nonetheless, he seeks to create a reputation and rapport which will make clients more likely to accept services in general and accepts that owner-managers will be more open to some services than others. His intent in taking this approach is therefore clearly to maximise his practice's overall profit in line with neo-classical economic theory.

14.6.0 Evidence Regarding the Profitability for External Accountants of Providing Management Accounting Services to Small Enterprises

The respondent sees the provision of management accounting information and advice to small firms as viable for his business, although it is essential to retain the owner-managers' interest by working out what really excites them, an expensive car for instance. The plan for the management accounting can then be expressed in terms of decreasing the time for that to be achieved.

“Well you have got to keep their attention. You have got to do it very quickly.... Now you are on two million; in two years' time three million do you think possibly? Well, that will treble your profits and you can have very nice car on that. That is something that appeals; of course it appeals.” *(Respondent)*

However, he does see owner-managers as being initially reluctant to pay for the service. This is consistent with the findings of Fearn (1984) and Lucas et al. (2013) that owner-managers tend to have a limited understanding of the benefits of management accounting and their education and motivation tends to affect their responsiveness to such services (Ng et al., 2013). The respondent pointed out that cheap available software such as QuickBooks allows reports to be printed off by the owner-manager or staff. This allows the respondent to check cash-management, for instance, without a significant time penalty. In his view owner-managers tend not to be financial experts so are often not aware of these issues and the possible solutions.

The key in the respondent's view to gaining acceptance of management accounting services is to recognise that owner-managers have a strong emotional investment in their business and so the respondent approaches management accounting proposals with owner-managers in a way that keeps them feeling in control.

The respondent is not someone to be content with just preparing accounts and seeks to develop his business relationship with his clients beyond historical work.

“I don’t want to get bored either so I have got to make it good for them so it is good for me.” *(Respondent)*

He aims to work with clients to help them increase their profit, although he recognises that the chemistry will not always be right and some owner-managers will prefer to pay just for the statutory requirements. In his view the compliance work will provide a good living, meeting the fixed costs of the practice. He would prefer to increase his income and work on more interesting aspects of his clients’ businesses when he can persuade his clients to do so. Since he has the necessary skills and the promotion of management accounting services occurs as part of engaging with his clients on routine business, the additional cost of seeking to develop charged management accounting services is negligible. Any such services which are taken up by his clients therefore add to his practice’s profit and his intent in continuing to obtain them is to maximise that profit and so is consistent with the assumptions of neo-classical economic theory.

14.7.0 Accountants’ Views of Owner-Managers

Section 14.4.0 mentioned that the respondent understood that owner-manager’s resentment at the compulsory expense of statutory requirements was a barrier to take up of management accounting services. In the respondent’s view a further barrier is owner-managers’ lack of financial understanding.

“The only entrepreneurs who have financial knowledge become accountancy firms, but in all other firms they are experts in cooking across the world or botanics.” *(Respondent)*

The respondent believes that owner-managers are not aware of the benefits of management accounting services and so are initially reluctant to pay the fees. The respondent therefore seeks to find a financial benefit first of all and then propose a fee as a proportion of the saving on the basis of no gain, no cost.

In order to work well with owner-managers of small businesses, the respondent believes that it is essential to recognise that owner-managers have a strong emotional investment with their businesses, building them up in the way that they see as best.

The respondent's views reflect his personal opinion based on his interaction with many owner-managers over the years, seeking to understand why his management accounting services have not been taken up. His views are part of a pattern in the view of SAP respondents that various barriers to take-up stem from the owner-managers of small businesses. They may indicate tendencies among owner-managers, but need to be considered further in the cross-case analysis in Chapter 16 in order to compare them with the perspectives of owner-managers and other accountants.

14.8.0 Conclusion

The respondent's interest in and promotion of management accounting are in contrast to those of the research findings discussed in Chapter 2 which showed a lack of promotion of such services by SAPs. Nonetheless, the low take-up by owner-managers suggests that there may still be an expectation gap between owner-managers and accountants in SAPs on this issue. This chapter examines a SAP perspective, but it is crucial that the evidence here is also considered in the cross-case analysis in Chapter 16 in order to set it alongside evidence from owner-managers.

The respondent believes that his previous experience makes him better placed than someone whose experience is limited to a traditional accounting practice focussed solely on the analysis of books. He is aware of the need to develop a rapport with owner-managers to demonstrate his understanding of their business. He believes that this understanding, helped by the goodwill from demonstrating a financial gain will retain and attract clients as well as increasing the take-up of services. His intent, from his perspective,

is therefore to find the optimal way to maximise his practice's profit in line with the assumptions of neo-classical economic theory.

He sees the promotion of management accounting as arising from a style of working rather than just informing clients of available services. The development of a chemistry with the client is vital in his view as the client must accept that a management accounting service will be beneficial. The respondent seeks to express the benefits of a management accounting service in terms of bringing closer a goal that excites the client. This approach is not entirely convincing in that unlike tax savings the benefits of management accounting techniques usually cannot be quantifiably demonstrated to the client independently of other factors. The respondent accepts that rapport and trust increase the take-up of some services more than others. The intent behind his promotion is therefore to optimise the likelihood of selling whatever services he can, including management accounting, so as to maximise the overall profit of the practice. As such it is consistent with the profit maximisation assumption of neo-classical economic theory.

The respondent believes that management accounting services are potentially profitable for his practice despite owner-managers' initial reluctance to pay the fee. He sees it as important to make owner-managers feel in control of such services because of their emotional investment in the business. He has the skills to carry out management accounting and raises issues when feeding back on statutory annual accounts. Hence getting to the position where the accounting practice is ready to offer and carry out a particular management accounting service involves very little expense beyond what is already being done to prepare the accounts. If the service is accepted and the fee paid, the profit margin within the fee will contribute to the practice's overall profit. His intent in offering these services is therefore consistent with the profit-maximisation assumption of neo-classical economic theory.

He sees owner-managers' reluctance for such services to be based in a lack of financial understanding – which prevents appreciation of the benefit – as well as a wish to run the business according to their own priorities. The respondent emphasises techniques for reducing this reluctance by increasing trust that there will be financial gain. As with the other SAP accountants interviewed, low take-up forces him to maximise services as a whole while being ready to provide additional costed management accounting services when owner-managers agree. His intent is therefore to use his skills in the optimum way to maximise his practice's profit, which is consistent *ex ante* with the assumptions of neo-classical economic theory.

Chapter 15 – SE Accountants

15.1.0 Introduction

The respondent is the owner-manager and now sole partner of a small accounting practice. He was interviewed for approximately an hour and a half. The respondent's informed consent to participate was obtained and, for the reasons given in Chapters 2 and 5, the transcript was subsequently analysed thematically from an ex ante perspective.

This chapter considers the case on its own. Issues which are part of a pattern among other cases are further analysed in the cross-case analysis in Chapter 16.

15.2.0 The Firm's Background

The accounting practice is based in south-east England. It was started in 1981 by the respondent who is qualified as a chartered accountant. A second longstanding partner left in 2013. The firm currently has about 150 corporate clients and 400 individual tax-return clients, which the respondent sees as slightly bigger than a typical one-partner practice. Two team managers report to the respondent. There are five full-time employees and five others who work on a part-time basis.

Most new clients approach the firm because of personal recommendation. The risks to the business have decreased over the years with its increase in size. Staffing is currently the main risk because the staff have a great deal of experience and knowledge of the clients, so if any are ill, it is not possible for temporary staff to provide the same level of service. The general oversight and direction of the business comes solely from the respondent, but the risks arising from this have been reduced by his approach of developing the team to function in his absence. He intends to retire in the next year and to sell the business to his own managers to continue as a going concern.

15.3.0 The Respondent's Background

The respondent qualified as a chartered accountant in 1981 after working with one of the leading national firms. He set up his own accounting practice not long after qualifying as he did not want to work in the City for large firms. He has a great deal of experience of working with owner-managed businesses, providing them with accounting and taxation services. He has also built up considerable experience of co-operatives, not-for-profit organisations and grant-funded charities.

15.4.0 Evidence as to Whether SAPs Lack Business Understanding and Skills

The respondent accepts that for the first eighteen years his business was just a traditional accounting practice, concentrating on historical work and financial accounting. It was consistent with the criticism highlighted in the academic literature that accountants in SAPs lack understanding of their clients' businesses (such as Kirby and King, 1997; Reeb, 1993) and operate with an institutionalised mindset that their role is to carry out solely historical financial accounting.

Then about twenty years ago the respondent went on a workshop, 'The Accountants' Boot Camp', which stressed the need to try to go beyond that traditional emphasis on historical data and to provide value-added services – services which could build on the understanding derived from the historical work to provide further support such as management accounting. The respondent began to see his practice as a business which needed to create and exploit opportunity and find ways to maximise its profit.

“I think we only changed because we went to this Accountants' Boot Camp workshop; because I would say that of our first fifteen or eighteen years of business we were traditional accountants. We are not now. What happened in that week [is] that we stopped being chartered accountants and we started being a business. I think training of accountants does not prepare them to see [their practice] as a business.” *(Respondent)*

As a result of attending the Boot Camp, the respondent became aware of the institutional contradiction (Seo and Creed, 2002) between the previous institutionalised perception of the role of the practice and the intent to increase profit. He developed an awareness of the need for management accounting information in small businesses and the potential for accounting practices to provide this. He has developed his practice to build in awareness and communication skills to take this approach forward. His intent over many years has been to benefit his business by analysis of the optimum way forward in terms of improving understanding of his clients' businesses and needs as well as continually developing the skills for promoting what his practice can provide. He realigned the practice to attempt to exploit new areas in which to increase profit and has spend the last twenty years seeking ways to achieve this. The respondent's behaviour since the Boot Camp is therefore in line with neo-classical economic theory.

In critical realist terms, the structures which encourage or inhibit business behaviour from one practice to the next develop over time as a result of the recursive interaction between existing structures and the way in which agents can modify those structures through their own behaviour (Archer 1995). The Boot Camp occurred in the late 1990s. About the same time, in 1997, ICAEW published a consultation paper (cited in Marriott and Marriott, 2000) pointing out the need for accounting practices to diversify from a compliance approach into more general business advice. As the cross-case analysis in Chapter 16 points out, this perspective is now commonplace among the interviewed SAPs.

As far as the respondent is concerned, he prefers to be closely involved with the businesses of his clients.

“I loved working with [one of his clients] because [the finance manager] and her predecessor would say to me, ‘Can we look at the figures every six months’. I would go in and help them to set budgets and targets and if they had targets they might get there.”
(Respondent)

He has also been involved in crisis meetings at that business and was able to discuss the situation with the whole team, helping to identifying the problems and providing advice.

Another way he has worked with his clients has been by attending their board meetings. Although his presence was initially intended to assist with financial accounting issues, he has used the meetings to argue for a focus on targets and profits. He saw this approach as very effective for overcoming the lack of awareness in small enterprises of the benefits of management accounting information, although he pointed out that the opportunity to attend board meetings is rare so this approach does not have a big effect across his client-base as a whole.

This evidence of the need for owner-managers of small businesses to become more aware of the role that external accountants can play beyond statutory accounts and taxation is consistent with findings in the academic literature (Fearn, 1984; Kirby and King, 1997; Marriott and Marriott, 2000; Lucas et al., 2013) that owner-managers have a limited view of what accounting practices can provide. Attendance at a board meeting could also contribute to Kirby and King's (1997) call for better understanding between accounting practices and owner-managers so the credibility gap can be reduced. The respondent sees the dialogue at these meetings as having been useful in reducing the credibility gap by showing how management accounting approaches such as focusing on targets and profits can support current and future business decisions. However, if his mindset had been solely limited to the preparation of historical accounts, there is a risk that his contribution to the meetings would not have been focused on how management accounting could assist and so would have reinforced the gap rather than reducing it.

The increase in understanding witnessed by the respondent when he was able to engage in board discussions aligns with one of the findings of Lucas et al. (2013) that owner-managers are not aware of the potential of using external accountants as business partners,

in the sense of engaging them more in the business so that they develop greater understanding of the issues confronting the business and can provide management accounting information to assist with strategic and operational decisions.

However, successful implementation of the business partner approach also requires accountants to have awareness of the needs of small businesses. In the respondent's view chartered and certified accountants need to develop the skills to better understand clients' businesses and to catch up with the changes made by CIMA for managerial accountants. In his view the training of chartered and certified accountants focuses mostly on technical knowledge but does not do enough to prepare them for business.

“I think the training is fairly at the lower level, just getting qualified. It is fairly [much based on knowing] the Companies Act and the Tax Act and all that sort of compliance stuff. It is not business acumen.” *(Respondent)*

This is consistent with the view of Reeb (1993) who saw accountants as tending to provide standard information to small businesses rather than customising to suit the needs of the business as perceived by the owner-manager. The respondent sees the need for the training of chartered and certified accountants to change to align the accountants more closely with the needs of small businesses. This point echoes the need mentioned earlier in this section for the credibility gap to be reduced between owner-managers and accountants. It also provides evidence in support of the NIS view that training and other forms of professionalization create normative isomorphism so a change in training may alter subsequent behaviour. As mentioned earlier in this section, the Boot Camp, coming in the late 1990s, was part of a historical change in the context in which SAPs operated so that context could be explained in terms of OIE. However, it is clear that after he attended the Boot Camp the respondent's behaviour changed and he has spent the last twenty years

seeking to optimise the work of his practice. His intent is best explained by ex ante with neo-classical economic theory.

15.5.0 Evidence as to Whether Accountants Promote Management Accounting Services Sufficiently

The academic literature which suggests that there is a credibility gap between accountants in practice and the owner-managers of small businesses (such as Kirby and King, 1997) also points out that accountants need to do more to promote management accounting services as part of their contribution to reducing this gap. The evidence presented in this case strongly shows that the respondent's firm has been proactive in promoting management accounting services to small firms but has met with a very limited response. During the interview he gave a number of examples of how he had tried to engage small businesses about management accounting issues in different ways. Often they showed initial interest but tended not to follow through.

“We have not entirely given up [trying to sell management accounting services], but knowing that it is very unlikely to happen, we have more or less given up trying to sell a package to them, to say ‘can we spend more time on this, this is what it will cost you.’ [That is] because we know that they will just say no, but we do give them advice just as part of the normal process of looking through their accounts.” *(Respondent)*

He has used his experience of such attempts over many years to evaluate why owner-managers are generally not interested in contracting management accounting services from accountants and has come up with several reasons such as a failure by owner-managers to see the big picture and a concern that the benefit may not warrant the cost (see section 15.7.0). His view is still that the benefit to small businesses would warrant the cost, but that owner-managers fail to grasp that. It is clear from section 15.6.0 below that he believes that the potential market is there, but moving from potential to actual is currently possible to only a small degree. He therefore usually does not try to sell management accounting in

advance as a costed package, but he and his staff draw attention to management accounting issues as part of preparing the accounts. He gave a recent example.

“I was with a client last week, ... there are two brothers and profits are way down.... I said to one of the brothers ... ‘how do you do your quotes?’ He said, ‘My brother works out how much it is going to cost to build this product and he doubles it.’ I said ‘In your accounts for the last three years your [variable] costs are half of your sales so doubling it does not leave you with anything for overheads or profits. He’s got to triple it.” *(Respondent)*

The client quoted here had asked him to discuss this with his brother and at the time of the interview a meeting with the brother had been arranged.

Owner-managers may not be aware of the ways that management accounting information can assist so the approach used in this example allows for awareness to be raised in a manner that is relevant to the client, who is then in a better position to assess the benefit. As mentioned above, participation on a client’s board has also allowed the respondent to raise awareness of management accounting techniques.

This level of promotion is probably well below what the respondent had in mind when the practice changed its approach after the Boot Camp two decades ago, but, as the next section discusses, it is clearly tuned to maximise profit for the respondent’s business given the present limited receptiveness of owner-managers to management accounting services from external accountants. Whatever the reason, the low take-up undeniably exists and must be taken into account. The respondent’s intent in taking this approach is optimal in the circumstances and is therefore consistent with neo-classical economic theory.

15.6.0 Evidence Regarding the Profitability for External Accountants of Providing Management Accounting Services to Small Enterprises

The respondent strongly believes that appropriate management accounting services would be cost-effective even for the smaller businesses because the extra accounting fees would be paid for by increased income. He therefore sees a potential for the provision of

management accounting services to be profitable for his business, but accepts that owner-managers are not currently enthusiastic about taking up such services.

“I say, ‘Well the way to do that is to do your accounts monthly, we need to sit down with you once a month and see what’s happening here. Are you keeping up with your marketing [or] whatever it is. And there is price for that. And that’s when they say no because they can’t afford it. Although they think they can’t afford it, but if they do then it will pay for itself.’” *(Respondent)*

He has therefore had to accept that the take-up is small despite drawing on his experience over many years to engage with clients on the provision of management accounting services.

“Probably the furthest down the road we get is that I can convince most of them to have nine months accounts. ... Really the only reason you do this [is] for tax savings [because I] can say ‘Profits are up from last year. Do you want to [do something in the remaining three months to] save some tax?’ ... But that is the driving force, not because they want to improve their business.” *(Respondent)*

The respondent’s view of the profitability for his practice of management accounting services is that, as things currently stand, the practice has to make most of its profit from financial accounting. He sees management accounting as a potential area for growth. His analysis is clearly based on the results of trying to realise that potential over many years, seeing the benefit for small business when management accounting advice has been taken up, but being realistic about what can currently be achieved. While the reasons for owner-managers’ reluctance to accept management accounting services can be debated, it is indisputable that the take-up is low so the practice cannot depend on it as a main source of profit. The decision to rely mainly on other sources of profitability is based on a well informed analysis and the intent behind it is to find an optimum way forward for his business. That intent is clearly consistent with neo-classical economic theory.

15.7.0 Accountants' Views of Owner-Managers

When asked what factors on the part of owner-managers tend to contribute to the barriers to greater use of external accountants for the provision of management accounting, the respondent grouped them under four headings:

- a) A failure to see the big picture;
- b) The view by owner-managers that external accountants are concerned solely with historical matters such as annual accounts;
- c) Concern that the increase in revenue from the management accounting service may not cover the accountants' charges;
- d) Fear that increasing prices to improve margins will deter customers.

Clearly these factors represent one person's view of tendencies among owner-managers. His clients' businesses mostly have a turnover ranging from £100,000 to £1 million, so are at the small end of the size range being considered in this research. However, his perspective is that of someone who believes that accounting practices can cost-effectively improve the financial sustainability of small businesses, but whose attempts to sell such services to owner-managers have met with very limited take-up. Since interviewing those particular owner-managers was not feasible within the resources available to the research, it is impossible to determine what reasons they had for not taking up the offered services. No conclusions can be drawn as to the theoretical basis for their views. Nonetheless it is worth drawing on the respondent's experience of tendencies among owner-managers. The issues raised in these subsections will therefore be considered further in the cross-case analysis in Chapter 16.

15.8.0 Conclusion

By the respondent's own account, for the first half of its existence the practice concentrated on historical accounting and compliance, but he has spent the twenty years

since the Boot Camp also trying to provide value-added services such as management accounting. His approach in optimising what the practice can provide is consistent with neo-classical economic theory. This change in perspective occurred at the same time as ICAEW was proposing the need for diversification to counter decline of the traditional market because of greater availability of IT and accounting software. While the respondent changed his approach after the Boot Camp, he believes that there is still a need for the training of chartered and certified accountants to deal more with business acumen.

The respondent has been proactive in promoting management accounting services since the Boot Camp and sees such services as cost-effective for small firms, but, despite twenty years of promoting them in different ways, he has had to accept that take-up remains low. The practice can only draw attention to problems when they feed back on historical work, but accept that owner-managers are rarely interested in taking forward a charged service to solve them.

Historical and compliance services therefore have to remain the bedrock of the practice's profit, despite the respondent's view that there is a potential market for charged management accounting services. It is therefore optimal for the respondent to be pointing out issues that could be solved by management accounting, but not relying on such services to provide most of the profit. This approach is therefore consistent with neo-classical economic theory.

While, as mentioned above, the respondent sees room for accountants' training to cover business acumen, when specifically asked about the barriers on the side of small firms, he pointed out several areas where in his view owner-managers' behaviour or understanding is less than optimal such as their failure to see the big picture for their business. Since this research is not based on investigating matched pairs of small businesses and their SAP, the

response of the specific owner-managers are unknown, but the points raised in this case are examined further in the cross-case analysis in Chapter 16.

The Boot Camp in the late 1990s, which led to the respondent's awareness of his limited perspective of the role of his practice, was part of a general changing of perspective among SAPs as IT changed their traditional market. By the time of this research, management accounting is an inherent part of the thinking of all five interviewed SAP managers. The context in which the respondent operates is therefore influenced by the accident of history that the Boot Camp occurred when it did and the respondent was able to attend. That context can therefore be seen as consistent with the path-dependency assumption of OIE. However, the respondent's intent for the twenty years since then has been to maximise the profit of the practice by seeking to optimise the opportunities available to carry out profitable services and so is consistent with neo-classical economic theory.

Chapter 16 – Cross-Case Analysis

16.1.0 Introduction

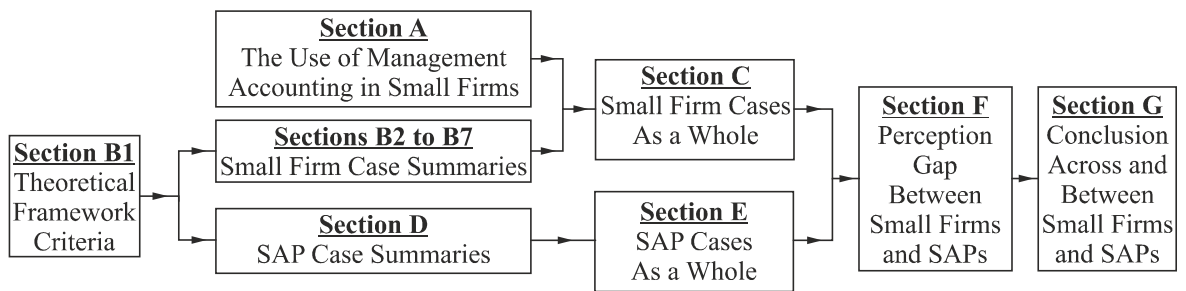
Table 16.1: Small Businesses and SAPs Taking Part in the Research

Small Non-Micro Firms	Micro Businesses [*]	SAPs
Rad Publishing	Management and Finance Consultant for SMEs	SE Accountants
Quality Engraving	Management and Impact Consultant	Real-Time Accounting
Construction Engineering	Procurement Consultant	Zippy Accounting
Public Private Consulting		Recent Accountants
Bikes Co		Planner Accountants
[*] As mentioned in the text below, the three businesses labelled here as micro come within the definition of small enterprises used in this research, but are analysed separately in this chapter.		

To meet the objectives of the research (see section 2.3.0 of Chapter 2), in-depth case studies were carried out on a mix of eight small businesses (three of which were micro) and five SAPs as listed in Table 16.1 above. The three businesses labelled in this chapter as micro are small enterprises within the definition used in this research, but because of their very small size and simple structure, the amount of management accounting that they need is extremely limited. It is therefore more useful to analyse them together in this chapter. (See Chapter 10 for more detail on these micro cases.)

A number of issues, views and approaches were common to several of the small enterprises. Different ones were common to several of the SAPs, sometimes contradicting those in the small enterprises. In terms of the critical realist perspective of this research, complete agreement would not be expected between all the enterprises or between all the SAPs because of the different structures (in the critical realist meaning of the term) which exist in each organisation. However, a degree of commonality within one of these groups may indicate a tendency which suggests that the same causal mechanisms are at work across the group. The cross-case analysis in this chapter therefore summarises the commonalities found within each case; then within each group; and finally compares between the groups.

Figure 16.1: The Structure of the Cross-Case Analysis



Section A establishes the extent to which the owner-managers of small businesses carry out management accounting tasks and the factors influencing that.

Section B summarises the findings in each of the small firm cases, drawing out the reasons why they tend not to contract SAPs to provide management accounting services and which of the theoretical frameworks can best explain the behaviour of key managers in this regard. The criteria used for this are laid out in subsection B1.

Section C draws out the patterns and tendencies across the small firm cases as a whole.

Section D summarises the findings in each of the SAP cases, drawing out the reasons why they have had only limited success in selling management accounting services to small businesses and which of the theoretical frameworks can best explain the relevant skills, aptitudes and behaviour of accountants in SAPs including the degree and style of promoting such services and their level of business understanding.

Section E draws out the patterns and tendencies across the SAP cases as a whole.

Section F summarises the extent to which a perception gap between key managers of small businesses and accountants in SAPs affects the level of take-up of management accounting services.

Section G concludes the chapter.

Section A

Establishing the Extent to which Owner-Managers Carry Out Management Accounting Tasks in Small Businesses

In order to gain insight into the management accounting tools which are critical to running small businesses, this research investigated the use of the six main management accounting tools recommended by the management accounting text books (See Table 16.2 below).

A1. Use of Six Management Accounting Tools in the Small Non-Micro Firms

Table 16.2: Use of Management Accounting Tools by Small Non-Micro Firms

<u>Small Firms</u>	Product or Service Costing	Breakeven Analysis	Working Capital Measures	Formal Budgetary Planning & Control	Capital Expenditure Appraisal	Responsibility Accounting
Rad Publishing	Yes	Yes	Yes	No	Sometimes	Being considered
Quality Engraving	Yes	Yes	Yes	No	No	No
Construction Engineering	Yes	Yes	Yes	No	No	No
Public Private Consulting	Yes	Yes	Yes	No	Cost comparison rather than formal tools	Yes
Bikes Co	Yes	No	Yes	No	No	No

Table 16.2 shows whether the six tools are used by the five small non-micro cases. Section B below considers the cases one by one to assess the degree to which the calculation of management accounting information by owner-managers is justified in each specific case; and whether further use of management accounting tools could be beneficial. The use of management accounting tools by the micro businesses is considered in subsection B7.

Table 16.2 above shows that all of the small non-micro firms investigated found some management accounting to be critically important in running their business. The pattern in the use of these tools is consistent with the exploratory study by Lucas et al (2013). All the small non-micro firms studied in this research tend to use management accounting tools

frequently for product costing, breakeven analysis and working capital measurements (except that Bikes Co does not use break-even). There is some use for capital expenditure decisions and responsibility accounting, but none for formal budgetary planning and control. In small firms with a simple structure and the decision-making confined to one or two people, formal budgetary planning and control would not necessarily be expected and responsibility accounting would often not be relevant.

Overall, management accounting tools were used mainly for management control rather than supporting decision-making. This research is also consistent with the findings of the research by Lucas et al. (2013) that the majority of management accounting in these small non-micro firms was carried out by owner-managers and involved a significant opportunity cost in terms of the owner-manager's time, informally estimated by them during the interviews as between 10% and 30% of their time. Subsections B2 to B7 below consider the degree to which that use of time was appropriate in the specific circumstances of each case.

Section B

Case by Case Summary of Whether Small Businesses Use SAPs for Management Accounting Services and Which Theoretical Framework Best Explains Their Behaviour

B1. Criteria for Conformity to Each of the Three Theoretical Frameworks

In the light of the analysis in the literature review in Chapter 3 the criteria in Tables 16.3 to 16.5 (below) have been used to test the degree to which the case findings conform to each of the three theoretical frameworks chosen for analysis in this research. The tables contain some examples for clarity, but to minimise repetition, the full details and references are to be found in the literature review in Chapter 3.

Since the research considers decisions about processes and behaviour rather than the outcome ex post, the evaluation has been made with regard to the view or behaviour of key decision-makers ex ante.

Table 16.3: Criteria for Conformity to Neo-Classical Economic Theory

NC1 <i>Profit Maximisation</i>	A business's primary objective is profit maximisation, such as when the price of a good or the fee charged for a service is set to the cost plus a mark-up of what the market will bear in the light of current demand.
NC2 <i>Optimal Solutions</i>	A firm's decision-making is always based on a series of rational assessments of all relevant costs and benefits, reaching an optimal (or constrained optimal) solution based on the current or likely future context of the business.
NC3 <i>Constrained Optimum</i>	In the light of uncertainty, bounded rationality and information costs a constrained optimal solution may include the use of a lower cost proxy if the cost of a more exhaustive analysis would be likely to outweigh the benefit.
NC4 <i>Proxies</i>	Such proxies may include judgements based on past experience, hunch and rules of thumb unless these are evidently non-optimal.
NC5 <i>Agents Restore Optimum</i>	Agents encountering rules or habits which are sub-optimal will act to change them in order to restore the optimum (such as by altering institutional practices which are preventing optimisation).
NC6 <i>Past Actions Affect Current Context</i>	While optimisation and constrained optimisation relate to the present or expected future context of the business, that context will derive partly from actions or decisions in the past (such as the development of the current brand, competitive advantage or workforce skills).

Table 16.4: Criteria for Conformity to OIE

OIE1 <i>Profit Maximisation Not Universal</i>	Economic agents are not always profit-maximisers acting in a (constrained) optimal way. Agents may, for instance, seek a profit sufficient to meet their needs in order to obtain other rewards such as job satisfaction.
OIE2 <i>Not Only Optimising</i>	Rational analysis achieving optimisation does occur, but structures such as social and cultural influences or perceptions also affect business decisions.
OIE3 <i>Perceptions</i>	Rational analysis may fail to achieve optimisation because of the perceptions or lack of understanding of agents (for instance, by owner-managers of what accountants can offer and by accountants of what their clients need).
OIE4 <i>Non-Optimality Persisting</i>	Institutions create perspectives which may colour what a person sees as rational or optimal. Hence intent or behaviour may persist in a path-dependent way in the face of evidence that it is non-optimal.
OIE5 <i>Habits</i>	Habits, taken-for-granted assumptions and unquestioned rules of thumb may determine behaviour rather than optimal analysis.
OIE6 <i>Agents Change Institutions</i>	Institutions influence behaviour, but are themselves created by the actions of agents. They can be removed or modified by agents who have become aware of an institutional contradiction and so act to improve optimality.

Continued ...

<u>OIE7</u> <i>Evolutionary Change</i>	Change often occurs in an evolutionary way, rather than happening instantly whenever the current business context alters. This is because actors change their behaviour as a result of learning and also because of the power of institutions to inhibit change and encourage stasis (the maintenance of the status quo).
<u>OIE8</u> <i>Ambiguity and Uncertainty</i>	Ambiguity and uncertainty mean that rules based on hunch or past experience may be more reliable than constrained optimisation drawing on unverifiable assumptions.

Table 16.5: Criteria for Conformity to NIS

<u>NIS1</u> <i>Legitimacy</i>	Organisational behaviour may be adapted to social expectations in order to gain legitimacy, including financial legitimacy in the eyes of funding organisations or social legitimacy to increase sales, such as by emphasising green policies.
<u>NIS2</u> <i>Decoupling</i>	Decoupling may occur when formal legitimating rules are not incorporated into actual practice as in the ceremonial use of management accounting to placate funding bodies.
<u>NIS3</u> <i>Isomorphism</i>	Isomorphism may be adopted in order to promote competitiveness, such as with green policies; or can inhibit competitiveness, as when an approach is adopted because conformity may be safer for the decision-makers.
<u>NIS4</u> <i>Coercive Isomorphism</i>	Coercive isomorphism may arise because of the requirements of external bodies or social expectations such as conformity to accepted accounting rules.
<u>NIS5</u> <i>Mimetic Isomorphism</i>	Mimetic isomorphism may arise because of the adoption of successful practices in other organisations, such as when staff bring practices from their previous jobs. It may also be used so decisions can be justified if adverse outcomes occur because of uncertainty or ambiguity.
<u>NIS6</u> <i>Normative Isomorphism</i>	Normative isomorphism may arise when people in different businesses have common perspectives and practices developed through standard training or because of interaction with other people who share the same group identity. It is particularly associated with professionalization.

Subsections B2 to B7 below draw out from the findings in the individual small case analysis chapters the degree to which the behaviour of key managers is explained by the theoretical frameworks in terms of these criteria with a view to considering in section C the patterns across the small businesses as a whole. The details of these findings and the literature to which they relate can be found in those individual case chapters so are not repeated in section B.

B2. Rad Publishing

The decision as to whether to publish a particular book is of critical importance to the profitability of the business. It is made by the members of the co-operative in the light of a

recommendation by three specialist staff taking into account expected sales and the specific cost factors in each case. The decision also takes into account the effect of the book on the brand that the business has developed, which is crucial to overall sales [NC6 **(Past Actions Affect Current Context)**]. The calculations are facilitated by specialist publishing software designed to deal with cost and expected sales calculations of this kind. The use of the specialist software is consistent ex ante with NC2 **(Optimal Solutions)**], but the decision process requires estimates of sales so is consistent ex ante with NC3 **(Constrained Optimum)**.

The collective involvement of all members of the co-operative increases their commitment to this decision as well as to the general running of the business. Hence, in critical realist terms this involvement creates structures which encourage optimal performance in line with neo-classical economic theory [NC2 **(Optimal Solutions)**]. On the other hand, the collective ethos also creates structures which impede the finance manager in gaining acceptance of formal budgeting to distribute responsibility for performance to individuals in specific departments [OIE3 **(Perceptions)**, OIE4 **(Non-Optimality Persisting)**]. The ethos also creates structures which reduce the staff's willingness to use the external accountant. This is because the degree of engagement of the staff tends to produce the view that an outsider would have less understanding than they would of the way that the business works. This is despite the limited financial knowledge of most members of the co-operative [OIE4 **(Non-Optimality Persisting)**]. Some of the structures can therefore be seen to be promoting optimisation, but others contribute to untested perceptions in line with OIE [OIE2 **(Not Only Optimising)**].

Following the collapse of a distributor, the finance manager did seek the external accountant's advice and in due course began six-monthly meetings with him. These meetings increased her confidence in her actions and provided new understanding,

allowing her to optimise her actions [**NC2 (Optimal Solutions)**] and learn how the accountant can help [**OIE7 (Evolutionary Change); NC5 (Agents Restore Optimum)**]. In addition, the finance manager's feedback from the meetings added legitimacy to her actions in the eyes of the other staff [**NIS1 (Legitimacy)**] and increased the staff's understanding of the benefits and costs of using the external accountant [**OIE7 (Evolutionary Change); NC5 (Agents Restore Optimum)**].

In this sort of situation intangibles such as trust and confidence play an important role in decision-making. On the one hand they can be seen as institutionalised behaviour [**OIE3 (Perceptions)**], but on the other hand, they could be part of rational analysis towards a constrained optimum using judgement and hunch in the face of imperfect information [**(NC4 Proxies)**]. The intangibles have to be judged on their effect in each case depending on whether they inhibit or contribute to optimality, a balance judged at the end of this subsection.

Rad Publishing had to obtain a loan to move into electronic books and were required to produce management information by the lender [**NIS4 (Coercive Isomorphism)**]. The finance manager accepted the need to comply, but in her view the emphasis on long-term planning is not always realistic for a small business which has to be continually adapting to circumstances because of limited resources [**(NIS2 Decoupling)**]. She does however believe that there are areas in which the business's use of management accounting needs to be strengthened in order to optimise performance, such as increasing sales analysis to improve future planning. The current lack in this area shows that habit is inhibiting optimality [**OIE5 (Habits)**]. On the other hand, the finance manager's awareness of this need indicates that she has started on the path to change the institution [**OIE6 (Agents Change Institutions)**], although she still needs to convince other members of the co-

operative before change is likely to fully occur [**OIE7 (Evolutionary Change)**; **NC5 (Agents Restore Optimum)**].

Many aspects of the intent in this business are consistent with neo-classical economic theory, such as the calculation of management information in-house for book publication decisions. Yet there is also evidence of intent being affected by institutions. On balance, since neo-classical economic theory assumes that (constrained) optimising is universal, the overall position of the business is better explained by the OIE view that optimisation may occur but is not universal [**OIE2 (Not Only Optimising)**] and by NIS [**NIS1 (Legitimacy)**, **NIS2 (Decoupling)**, **NIS3 (Isomorphism)**].

B2.1 Barriers on the Accountants' Side which Prevent Greater Use of SAPs – The View from Rad Publishing

The finance manager believes that the firm's current accountant has a very good understanding of the firm and would be able to provide further management accounting services if they were required. However, her experience of unsolicited contact by accounting practices seeking new customers is that references to management accounting services, if any are made, are not sufficiently clear for her to judge if they would be worthwhile. This suggests that there is scope for training of accountants in SAPs in order to help such communication.

Despite her good opinion of the current external accountant, the finance manager does at times wonder whether it would have been an advantage to have used an accountant from the co-operative movement because of the benefits of normative and mimetic isomorphism [**NIS5 (Mimetic Isomorphism)**, **NIS6 (Normative Isomorphism)**]. Such an approach would cut both ways, however, in that it would remove the business from the current route for the development of isomorphism in relation to the other businesses in the publishing sector which are mostly not co-operatives.

B3. Quality Engraving

The business operates in a niche market for engraving machines. It has enlarged the market through innovation and maintains a strong profitable position. Manufacturing is contracted out, so the remaining structure is simple and the owner-manager is aware of all aspects of the business. He asks staff to print some reports from the commercial accounting software, such as break-even and gross profit margin for each product, but uses little additional formal management accounting, relying on his experience, hunch and rules of thumb. In this way he has maintained profitability over many years. The use of these quick low-cost proxies allows the small business to be flexible. The benefit of using the external accountant for further management accounting would therefore not warrant the cost. The current approach to management accounting and the use of the external accountant is therefore consistent with the constrained optimisation assumption of neo-classical economic theory [**NC3 (Constrained Optimum)**, **NC4 (Proxies)**].

As mentioned, the situation described here is currently constrained optimal for this particular business. However, the evidence in this case could also throw light on how firms in general need to alter their practices if they grow or their market changes. It is possible that Quality Engraving may need more extensive management accounting in the future if it loses its innovative edge over the competition or if its size and structural complexity increase. If that were to happen, it might become worthwhile to contract the external accountant to produce management accounting information. However, restoring optimal performance in such a situation [**NC5 (Agents Restore Optimum)**] would require the owner-manager to change ingrained habits and learn ways in which the external accountant could help in the changed circumstances [**OIE4 (Non-Optimality Persisting)**]. Equally, the external accountant would need to increase his understanding of the business. To be clear, this scenario does not currently apply to the firm and is mentioned only in case it throws light on the issues arising for firms in general as they grow or their market position

alters. Adaptation might arise incrementally as the circumstances change [NC2 (**Optimal Solutions**)]. On the other hand the adaptation might lag behind because of the need for learning and changes of perception as proposed by OIE. However, as the firm stands today, perceptions and habits are not inhibiting its ability to achieve constrained optimisation consistent with neo-classical economic theory [NC3 (**Constrained Optimum**)].

B3.1 Barriers on the Accountants' Side which Prevent Greater Use of SAPs – The View from Quality Engraving

The respondent saw the use of accounting terminology as confusing for staff in small businesses, leading to a communication barrier. While some technical terms are bound to be needed, counterproductive use of language would be consistent with the view of NIS that normative isomorphism tends to occur through common training or interaction with peers [NIS6 (**Normative Isomorphism**)].

B4. Construction Engineering

It was only about six months before the interview that the current managing director took over this post following the management buy-out of the owner-managed engineering consulting company, so the firm is still mostly working with inherited practices as it rebuilds after the recession, when staffing levels were cut back. Main projects are priced by taking into account the cost and adding a margin in terms of what the market will bear. Overheads are currently apportioned using a historically calculated ratio to labour costs, although the managing director would like to test the accuracy of this approach. Breakeven is calculated informally by the managing director. The structure is simple so responsibility accounting and budgeting are not appropriate. Cash-flow is monitored although delays in project acceptance and the uncertainty in start dates make forecasting unreliable. The managing director has not yet had to make capital expenditure decisions so it is not possible to assess from his passing views how he would carry out such decisions in a real case.

The managing director believes that there are inherited practices which need changing because they are sub-optimal [**OIE6 (Agents Change Institutions)**], including some of the management accounting. He intends to change these practices in order to maximise the business's profit [**NC1 Profit Maximisation**], **NC5 (Agents Restore Optimum)**], but the changes have to fit with other priorities. His intent is to learn how the company functions in order to be able to design optimal change [**NC2 (Optimal Solutions)**] and to become familiar with the suboptimal effects so he can persuade people to carry through the change in the face of institutional stasis [**OIE7 (Evolutionary Change)**]. To achieve that learning, he is temporarily carrying out all the management accounting himself, which is consistent with **NC3 (Constrained Optimum)**.

The managing director believes that the accountant has skills that he himself lacks. He used the accountant's help when re-incorporating the company during the take-over and still does so when ad hoc issues arise. He has agreed to have six-monthly reviews with the accountant, the first of which was due shortly after the interview. Because the managing director is still learning the financial side of the business through analysis of the management accounting information, he believes any decision on using the external accountant for more management accounting is currently inappropriate [**NC3 (Constrained Optimum)**], but he would be prepared to use the accountant in the future if a service was needed and the benefit warranted the cost [**NC2 (Optimal Solutions)**], or **NC3 (Constrained Optimum)**]. The managing director's current intent on the use of the external accountant is therefore best explained by neo-classical economic theory.

It is clear from the individual case analysis chapter above that the business has been profitable and successful over many years, building a good reputation. Nonetheless, there are signs that institutionalisation had built up to some degree so there are several ways in which existing practice is not fully optimal and better explained by OIE. However, in terms

of the ex ante focus of this research, the intent of the current managing director is to restore constrained optimality as he sees it and to maximise profit. This is mostly explained by neo-classical economic theory [**NC1 (Profit Maximisation), NC3 (Constrained Optimum)**], although there are some aspects which can be better explained by OIE.

B4.1 Barriers on the Accountants' Side which Prevent Greater Use of SAPs – The View from Construction Engineering

The managing director sees the external accountant as promoting services in terms of advising what is needed and trusts that the accountant is not suggesting services just to increase the SAP's profit.

The effect of the accountant's approach has been to reduce the possible barriers between the accountant and managing director. The increased trust that has developed has allowed the managing director to risk the albeit limited cost of involvement with the accountant in certain ways, amounting to constrained optimisation given his lack of information as to the benefit [**NC3 (Constrained Optimum), NC4 (Proxies) on the part of the managing director**]. Without interviewing the accountant it is not possible to assess the intent behind the accountant's actions.

B5. Public Private Consulting

The business provides management consultancy to the public and private sectors. Overheads are low and known from previous years. The main costs are the time of the consulting team and the fees of external associates. The fee offered to the client is based on the full costs plus what the market will bear and is determined by one of the directors using data in the bespoke project management system, which the book-keeper updates from time to time. The book-keeper prints reports for the directors from that system and the commercial accounting software. One or other of the directors knows the details of the few jobs active at any one time so they can estimate breakeven. Precise mathematical techniques are not required. Cash forecasting is unreliable because of variation in the rate

at which jobs come in, but credit control by the book-keeper is vital. Because each director is directly responsible for a group of projects, formal budgeting for central planning and control is not required, but the software produces profitability reports by responsibility centre. Capital expenditure decisions are based on simple cost comparisons as differential payback issues do not arise. Because the main cost of the business is for the time of a few people, which can be simply collated, so the degree of management accounting needed is less than it would be for a business manufacturing many different products.

The directors use a range of management accounting information based on data entered by the book-keeper. Since one or other of the directors calculates the cost and is closely involved carrying out each job, in the view of the interviewed director they can make links across the data that would be missed by anyone with less direct knowledge **[NC2 (Optimal Solutions)]**. Costing varies with the approach used for a particular job and so is known only to the director involved. This degree of involvement in management accounting has an opportunity cost, but the director who was interviewed sees analysis of such information and understanding its messages as a core task of the directors, giving them insight so they can oversee and plan the business **[NC2 (Optimal Solutions)]**. Central to this is the development over twenty years of software which is focused on business need and tuned to the different roles of the directors and the book-keeper. The interviewed director started work as a management trainee in the NHS and the way that management accounting is carried out is partly related to the fact that, as business management consultants, they are aware of the benefits of management accounting and between them they were able to develop the software to fit their needs and staff roles. Directors with different experience would have had to buy in the development and might not have understood so well what is needed **[NIS6 (Normative Isomorphism), OE3 (Perceptions)]**. This points up that management accounting systems tend to need more customisation than is the case for financial accounting (McChlery et al., 2004). The well-informed intent of the directors has

been to optimise the use of management accounting in order to maximise the profit of the business and ensure sustainability [NC1 (**Profit maximisation**), NC2 (**Optimal Solutions**)].

The interviewed director recognises that the needs and the appropriate solution could change if the business grows, but believes that use of the external accountant for management accounting would not currently be cost-effective because he would need to be briefed on the approach used in each job. It is not just the cost of using the external accountant, but also that the benefit would be slight compared with the present system so cost savings would be small. The intent not to use the external accountant for management accounting is therefore consistent with neo-classical economic theory [NC2 (**Optimal Solutions**)]. If the firm grows to the extent that there is a need for more extensive management accounting provision, the interviewed director's view is that the directors would need to assess whether to use the external accountant or employ someone in-house [NC2 (**Optimal Solutions**)].

B5.1 Barriers on the Accountants' Side which Prevent Greater Use of SAPs – The View from Public Private Consulting

As mentioned above, the business does not use the external accountant for management accounting because of its limited needs, the existence of customised software and the variability of the information known only to the directors. Use of the external accountant for more than financial accounting is not prevented by barriers, but is simply not cost-effective. However the interviewed director did suggest that it would be a benefit if external accountants were to flag up available grants or finance schemes. Furthermore, they could be a useful addition to the board as non-executive directors, providing an external view while learning more about the business. They might be able to inform strategic decisions if they were able to bring to the board meetings key ratios for the business compared with other typical small businesses.

B6. Bikes Co

The business does a full strip-down service on bikes, competing on quality and convenience for the customer. The hourly rate for servicing has been increased from time to time by checking the annual costs and overheads in relation to the owner-manager's view of what the market can bear. Payment is made when the bike is returned to the customer so credit control is not an issue. Working capital is monitored only to the extent that the owner-manager checks the bank balance while being aware of the costs. Monitoring of inventory is informal. The business structure is simple with the owner-manager aware of the whole business, so little formal management accounting is needed. As the owner-manager rightly says, mathematical models of the real world can never be perfect and both data and human insight are required. However, there are signs that the current level of management accounting information is insufficient, such as the lack of formal break-even and awareness of how labour hours are used. The owner-manager wants to make a satisfactory profit, but within the limits of maintaining job satisfaction. His intent as far as the use of management accounting is concerned is better explained by OIE than neo-classical economic theory [**OIE1 (Profit Maximisation Not Universal)**].

The external accountant has been used mostly for financial accounts, taxation and payroll, entering the paper receipts and invoices and sending monthly profit and loss statements and balance sheets. However, the owner-manager consulted the accountant during a recent cash-flow crisis. The accountant spotted a discrepancy between hours billed and worked. From discussion with the owner-manager it became clear that the time needed for a job was being understated in the quotes. This experience has brought the owner-manager to accept that management accounting needs to be done in a more formal way and to understand better how the accountant can help. While this is a start, the owner-manager has still not fully come to a clear understanding of how the external accountant could be cost-effectively used. His current intent is not yet based on a well-informed optimum and is still

better explained by OIE [OIE2 (Not Only Optimising), OIE4 (Non-Optimality Persisting)].

B6.1 Barriers on the Accountants' Side which Prevent Greater Use of SAPs – The View from Bikes Co

The use of management accounting is minimal and the need to take out a loan because of the failure to spot the labour hours issue is a stark illustration of the lack of financial controls. It could be argued that one barrier that prevented those controls from existing might have been that the external accountant failed to adequately promote such controls and explain their benefit. However, the owner-manager had refused some of the offered services when the contract with the accountant was first agreed and understood that he could have more if he paid for it. Without interviewing the accountant it is not possible to know how much he promoted and explained management accounting information. It is only now, after the crisis, that the owner-manager has begun to be slightly receptive to formal methods of management accounting, but is still not fully optimising.

B7. Micro Firms

Table 16.6: Use of Management Accounting Tools by Micro Businesses

<u>Micro Firms</u>	Service Costing	Breakeven Analysis	Working Capital Measures	Formal Budgetary Planning & Control	Capital Expenditure Analysis	Responsibility Accounting
Management and Finance Consultant for SMEs	Service fee is related to cost and market; costs minimal other than personal time, incremental expenses and sub-contracting	Not applicable	Yes	No	No	No
Management and Impact Consultant						
Procurement Consultant						

Table 16.6 shows a common pattern across the three micro firms investigated. All three use a similar approach to service costing as described below. Some degree of monitoring of working capital is used, but break-even, formal budgeting for planning and control, capital

expenditure analysis and responsibility accounting are either not relevant to their business structure, or can reasonably be seen not to be necessary. All three firms are consultancies operated from the home of the owner-manager who is the only employee. Overheads are minimal so break-even is not relevant. Costs involve mostly the owner-manager's time and incidental expenses such as travel. The management and impact consultant also subcontracts some specialist work such as IT, but the cost of that is built into the fee charged to the end client and is usually covered by a payment at the start. All three owner-managers are aware of the costs and payment status of the small number of projects open at any one time.

The management and finance consultant is working in retirement and not seeking to make a profit. He uses the fees that he earns from a government-run business support scheme to reduce the fees charged to other small businesses. His approach to profit maximisation is therefore consistent with OIE rather than neo-classical economic theory [**OIE1 (Profit Maximisation Not Universal), OIE2 (Not Only Optimising)**]. The management and impact consultant is continuing to work in order to increase her retirement income, but is not seeking to maximise her profit so her approach to profit maximisation is also better explained by OIE [**OIE1 (Profit Maximisation Not Universal)**]. In both cases the owner-managers' use of management accounting information is appropriate to their approach to the business. The fact that they do not make more extensive use of management accounting or contract the calculation to SAPs is therefore optimal and consistent with neo-classical economic theory. The procurement consultant is seeking to maximise his profit and ensure the sustainability of his business. He charges what the market will bear, varying with the state of demand. Because overheads are insignificant, his pre-tax income from a project is approximately the fee minus the other costs. He uses this calculation to assess whether to accept a project. The uncertainty over what projects will come in means that he may sometimes accept a lower personal income than he would ideally like in order to stay

solvent. Taking the rough with the smooth in this way is therefore a constrained optimal solution for maximising profit in the light of uncertainty and consistent with neo-classical economic theory. His use of management accounting information is appropriate to the needs of the business [NC1 (**Profit Maximisation**), NC3 (**Constrained Optimum**)].

While these three cases are small enterprises within the definition used in this research, they have a very simple structure, minimal overheads and few projects active at any one time. This means that the management accounting information that they need can easily and simply be carried out by the owner-manager without significant opportunity cost and so the question of whether to contract the external accountant to produce it does not arise.

Section C

Analysis Across the Small Businesses as a Whole

This section draws together the findings concerning the individual cases considered in section B in order to distinguish between common patterns across the cases which might indicate tendencies arising from common causal mechanisms as distinct from behaviour deriving from the specific agency and structures of the case. Subsection C1 covers the ways in which management accounting is used. Subsection C2 considers the cost-effectiveness of contracting the external accountant to provide management accounting information beyond the level that already occurs as part of discussing the annual accounts.

Details of the individual cases, how well their behaviour can be explained by theoretical frameworks and the relevant academic literature can be found in the individual case analysis chapters and section B so, to avoid repetition, section C refers only to the framework criteria listed in the tables in subsection B1.

C1. The Use of Management Accounting Tools Across Small Businesses

As shown in tables 16.2 and 16.6 (subsections A1 and B7 above), of the six tools specifically examined, costing, breakeven and working capital measures were used by all

of the small firms investigated except that *Bikes Co* and the micro firms did not use formal breakeven. These three tools are covered in subsection C1.1. Formal budgeting for planning and control, responsibility accounting and formal capital expenditure analysis were mostly not used. They are covered in subsection C1.2.

C1.1 Costing, Breakeven and Working Capital Measures

Product or service costing is of central importance to all the businesses investigated. In *Rad Publishing* the decision whether to publish a book involves matching production cost against a judgement made by the editor of the book as to the expected sales. The sales of the sort of books within Rad Publishing's brand are often affected by political developments on which opinions may vary so the emphasis on cost and sales data is seen by the finance manager as important to keep financial viability as the focus of the publication decision meeting. The specialist publishing software then produces breakeven and a calculation of how quickly working capital is likely to be released by sales. This information is used in the collective decision whether to accept the book for publication [NC3 (Constrained Optimum)]. In *Construction Engineering* and *Public Private Consulting* projects are costed by the owner-manager or one of the directors. The cost is based on judgements from experience of what approach to take in each project and hence the time and staff needed. The cost is used to assess whether the project will bring an appropriate return from the fee that the market will bear [NC3 (Constrained Optimum)]. The common factor for costing in *these businesses* and in *Rad Publishing* is that they are dealing with a relatively small number of individual projects, each needing experience and awareness of the specifics of the project in order to calculate its cost and viability. Once the specifics have been determined, the maths is quick and simple. Automation or outsourcing the calculation would therefore be unlikely to be cost-effective. However, both *Rad Publishing* and *Public Private Consulting* do use specialist software suited to handling the calculation in their particular context once the judgements have been made.

Breakeven is built into the management accounting information for the publication decision in *Rad Publishing* as mentioned above. Because of the limited number of projects *Construction Engineering* and *Public Private Consulting* can reasonably assess breakeven informally from the known profit margin built into the fee charged on each project [NC3 (Constrained Optimum)]. The *three micro businesses* have very simple structures and business models, so management accounting information, if needed at all, can often be estimated rather than requiring mathematical models. Breakeven is a case in point: since these micro businesses are based in the owner-managers' homes and have minimal overheads, precise calculation of breakeven is of little benefit. However, for *Bikes Co* breakeven can reasonably be seen to be a useful tool and the fact that it is not used is indicative of the owner-manager's underuse of management accounting [OIE2 (Not Only Optimising)].

Working capital can be a major issue for small firms with few reserves. The particular issues vary with the business. In *Public Private Consulting* the book-keeper's credit control work is seen as vital because of delays in payments by large organisations. The directors are also able to use liquidity reports in the bespoke project management software to track the payment of individual liabilities. In *Construction Engineering* delays in the acceptance and start date of jobs make forecasting unreliable and so monitoring working capital is a central task. For *Rad Publishing*, as traditionally in the academic publishing sector, capital tends to be tied up in books in the warehouse until the current print run is sold. This situation has eased slightly since it became technically feasible to print on demand. Nonetheless, the level of working capital available in Rad Publishing depends strongly on the accuracy of the sales estimates made for the publication decision. Variation in the flow of work to *small consultancy companies such as the micro Procurement Consultancy* means that they may sometimes need to take a project with less profit than they would like in order to bring in cash to stay solvent until a more profitable project

comes up in due course [**NC3 (Constrained Optimum)**]. Working capital is regularly monitored in *Quality Engraving*. The owner-manager of *Bikes Co* tends to plan from month to month for working capital. The crisis in working capital last autumn, arising from underestimating the labour cost when quoting, has meant that the external accountant has been able to begin to move the owner-manager slightly towards more formal thinking over basic management accounting tools, but the owner-manager's use is still less than optimal [**OIE4 (Non-Optimality Persists)**].

In *Quality Engraving* the owner-manager is aware of all aspects of the simply structured business and as considered in the case analysis chapter is able to make (constrained) optimal judgements using a mixture of information from the commercial accounting software and his experience [**NC3 (Constrained Optimum)**, **NC4 (Proxies)**]. This raises the general point across all management accounting tools that small firms with a simple structure and management by one person may not need much formal information as the owner-manager is able to keep a clear mental picture of what is going on. Indeed the flexibility that this creates is one of the strengths of small businesses, allowing them to adjust to circumstances quickly.

It is, however, worth raising the question whether other businesses which were once similar but have now grown or become more complex in structure may find that the informal structure and dominance of one person may have led to the growth of unquestioned assumptions. The danger is that such institutionalisation could impede optimisation in their new circumstances. *Quality Engraving* is not in that state. The new managing director of *Construction Engineering* took over practices from the previous owner-manager. He sees some of the practices as sub-optimal and in need of change when circumstances allow [**NC5 (Agents Restore Optimum)**], but it is not possible to

determine whether institutions would have begun to inhibit optimisation if the management buyout had not happened.

C1.2 The Use of Formal Budgeting for Planning and Control, Responsibility Accounting and Capital Expenditure

As shown in subsection A1 and B7, the five small and three micro firms can reasonably be seen not to need formal budgeting for planning and control and mostly to have no need for responsibility accounting because they do not have a devolved structure. *Rad Publishing* is exploring the use of responsibility accounting since the structure is departmentalised to a small degree. Although the three directors are the only decision-makers in *Public Private Consulting* responsibility accounting has been built into its bespoke project management software so a report can be quickly and simply printed off by the book-keeper. When capital expenditure decisions arise for the investigated small firms, they tend to be assessed by comparing the prices of various suppliers rather than by formal analysis. This is reasonable in the circumstances, firstly because the purchases are usually for items which must be obtained such as office furniture; and secondly because differential repayment rates do not arise between the options being considered. This last point might reflect the particular firms investigated. *Quality Engraving*, for example, outsources the manufacture of the engraving machines so does not have capital expenditure for manufacturing equipment which other similar firms might have.

Formal budgets for planning and control, capital expenditure analysis and responsibility accounting are therefore mostly not significantly needed in the small businesses investigated. Hence the very limited degree to which such formal management accounting tools are used does not suggest a failure to optimise and is consistent with neo-classical economic theory [NC3 (**Constrained Optimum**)]. Sometimes a greater degree of formal planning has to be introduced as an externally imposed requirement, as was the case with *Rad Publishing* when it needed a loan to develop electronic books. The data was provided

[NIS4 (Coercive Isomorphism)], but the finance manager of Rad Publishing felt that the emphasis on long-term planning is not always realistic for a small business which has to continually adapt to match limited resources to changing circumstances [NIS2 (Decoupling)].

C2. The Degree to which the Benefit Is Worth the Cost of Contracting an External Accountant to Produce Management Accounting Information

As summarised in subsections B2 to B6, this research has shown that owner-managers or other key staff in small non-micro businesses spend a significant amount of their time understanding what is happening on the financial side of the business and that this creates an opportunity cost in terms of how much time they have for other tasks. Three issues arise from that as far as the use of external accountants is concerned.

1. How much of that time relates to the managers' core task of understanding and reacting to the information rather than collating it: this they would need to do even if someone else was extracting the data and doing the calculations.
2. How much of the time could be cost-effectively released by outsourcing the production of management accounting information to SAPs.
3. Whether greater involvement of external accountants in preparing and discussing the information would allow owner-managers to gain a better understanding of the financial side of the business or cut them off from deeper insight. That depends partly on the business understanding of the external accountants and the degree to which they promote management accounting services.

The first two issues are covered from the perspective of small businesses in subsection C2.1 and the third in C2.2. The perspective of external accountants is covered in sections D and E.

C2.1 Time that Should be Outsourced? Or Essential Time Assimilating and Acting on Management Accounting Information?

The managing director of *Construction Engineering* (see subs. B4) is deliberately carrying out all the collation and analysis of management information in order to learn his way into the financial side of the business. The workload is huge spreading beyond his normal working hours. However, he sees it as a temporary measure which is essential to carry out, partly to understand what change is needed in the management of the business; partly to be informed so he can overcome stasis in order to carry through that change; and finally to learn what information he needs to optimally run the business. His current intent in collating the information is ex ante **NC2 (Optimal Solutions)** in the short term in that it is to ensure **NC1 (Profit Maximisation)** in the medium term. He is not yet in a position to even think about who should calculate it in the medium term [**OIE7 (Evolutionary Change) or NC5 (Agents Restore Optimum) in his intent**], but he appreciates that the external accountant has skills that he himself lacks and consults the accountant currently on issues of concern [**NC2 (Optimal Solutions) in the managing director's intent; or NC3 (Constrained Optimum) depending on the circumstances**]. The provision of advice in this way by the accountant is of course part of management accounting, but has been supplied up to now in an informal way rather than for an additional fee.

Public Private Consulting (subs. B5) is at the other end of that system-development curve. Over twenty years the directors have built up software and matching work patterns. In their field of work the demand is often shaped by whatever is the latest fashionable management concept. The directors trial new services to match the demand and vary prices to test the market rate. The services are then set up on the bespoke project management software so the book-keeper can enter or update basic data and the directors can cost a project by linking in the component services according to their assessment of what is needed for the project. Reports are printed by the book-keeper for the directors to plan and steer the

business. An additional factor is that, as management consultants, the directors are aware of management accounting. Overall, the interviewed director's intent is consistent with **NC1 (Profit Maximisation)** and **NC2 (Optimal Solutions)** although the development of the system over many years shows signs of **OIE7 (Evolutionary Change)**. On the other hand, the owner-manager of *Quality Engraving* (subs. B3) is able to obtain the information he needs for his simply structured business from experience in the light of reports printed by a member of staff from the commercial accounting software without the need for management accounting services from the external accountant [**NC1 (Profit Maximisation)**, **NC3 (Constrained Optimum)**].

In between those businesses are *Rad Publishing* (subs. B2) and *Bikes Co* (subs. B6). *Rad Publishing* is consistent in many ways with neo-classical economic theory, but institutional behaviour is also evident, so subsection B2 concludes that on balance the intent of the key staff in the business is consistent with **OIE2 (Not Only Optimising)**. The overall intent of the owner-manager of *Bikes Co* is consistent with **OIE1 (Profit Maximisation Not Universal)**. Both he and key staff in *Rad Publishing* have been learning from the contact with the external accountant about further management accounting information and ways that the accountant can help. This provision of business advice by the accountant as part of management accounting aligns with the ICAEW's 1997 consultation paper (cited in Marriott and Marriott, 2000) that external accountants would need to diversify into general business advice. It is significant that both these businesses approached their external accountant at a time of crisis and, as a result of the accountants' responses to their request, the relevant managers increased their understanding of how the accountant could benefit the business. *Construction Engineering's* external accountant was also willing to provide advice when the managing director had issues of concern. In all three cases the trust in the external accountant was increased. This issue is considered further in section F below considering issues across both small businesses and SAPs.

As mentioned in subsections B5 and C1.2, several owner-managers are of the view that a simple estimate of some indicators is preferable in their specific business to a formal calculation. This is because of the uncertainty over forecasting when jobs will turn up and the multidimensional expert knowledge needed in costing a job. In such situations the theoretically greater accuracy of mathematical models would not make the indicator more useful in practice. Furthermore, when options are limited, the formal indicator might well not lead to different action [**NC3 (Constrained Optimum)**, **NC4 (Proxies)**].

Overall this subsection has shown that, because of the small sample size, findings may seem to be a unique characteristic of a single case, such as with the managing director's learning curve in *Construction Engineering*. However, further research could show it to be part of a tendency. Certainly the evolutionary nature of change [**OIE7 (Evolutionary Change)**] is evident in different ways in *Construction Engineering*, *Public Private Consulting* (during the design of their systems), *Rad Publishing* and *Bikes Co*, indicating a tendency across cases regardless of the degree to which profit maximisation is being sought. Yet *Public Private Consulting* shows that the evolution of their management accounting systems has now given them a way of cost-effectively understanding and reacting to management accounting information [**NC2 (Optimal Solutions)**]. In *Rad Publishing*, *Bikes Co* and *Construction Engineering* the external accountant's focused responsiveness to the relevant manager's concerns led to an increased awareness of the benefits of management accounting by creating a situation in which managers could learn from the external accountant [**OIE7 (Evolutionary Change)**; **NC5 (Agents Restore Optimum)**]. This reduced the barriers to the provision of management accounting by external accountants. A fifth issue showing up across different cases is the view of owner-managers that in small firms with uncertainty and limited room for manoeuvre the theoretical mathematical precision of some formal indicators may have little benefit over simple estimates [**NC4 (Proxies)**].

There is therefore a varied picture as to the cost-effectiveness of contracting an external accountant to produce management accounting information, ranging from a temporary need for the managing director to produce it, through learning what the external accountant can help with, to a lack of need for further management accounting provision because of a bespoke system or the simplicity of the business's operation.

C2.2 Would Greater Involvement of External Accountants in Management Accounting Increase or Decrease Owner-Managers' Insight?

The exploratory study by Lucas et al. (2013) found that owner-managers of small businesses tended to produce management accounting information themselves because they believed it gave them better insight than they would obtain if it were externally produced. In this research the managing director of *Construction Engineering* is currently an example of that, learning his way into a new job. Yet he is clear that as an engineer there are things that he is good at while there are other things that the external accountant is better at. The managing director needs to learn the financial side of the business, but sees producing the information himself as temporary (see subs. B4: intent **not to use SAP** is **to increase his insight, NC2 (Optimal Solutions)**). He has not yet reached the point when he can work out the best alternative provision. The directors of *Public Private Consulting* have developed software over the last twenty years so the book-keeper can enter data and print reports for the directors. In this way they are able to gain increased insight by delegating data collation. This is a workable solution to the problem raised by Lucas et al. (2013) that internally generating management information causes an opportunity cost in managers' time. As the interviewed director rightly says, understanding the data and deciding how to react to it are core jobs for the directors (as distinct from producing it). The intent in developing the software in-house has been to increase the directors' insight in an optimal way [**NC2 (Optimising Solutions)**] (subs. B5).

Section D below shows that it is usual for external accountants to mention any management accounting issues that emerge from the collation of the annual accounts, but there is little interest from owner-managers in contracting external accountants to provide a formal costed management accounting service beyond producing six-monthly accounts. However, as mentioned in the previous subsection, the key managers of several of the small enterprise cases have used their external accountant for advice and assistance when required. For *Construction Engineering* it was over setting up the company after the takeover (subs. B4: intent **to use SAP** was to **increase his insight** as to how to proceed, **NC2 (Optimal Solutions)**). For *Rad Publishing* the trigger was a crisis (subs.B2: the intent **to use the SAP** was to **increase insight**, **NC2 (Optimum Solutions)**). For *Bikes Co* the trigger was also a crisis (subs. B6: the intent **to use the SAP** was to **increase insight**, **OIE2 (Not only Optimising)**). In all three cases the involvement of the accountant provided insight and increased the trust of the managers that engaging with the accountant on management accounting can be helpful, albeit provided the benefit is worth the cost. The interaction changed the taken-for-granted assumptions of the relevant managers. The key factor in these cases is that the accountant's response focused on the specific concern of the manager, so supports the point raised in the academic literature that one of the barriers to greater use of external accountants for management accounting is that it tends to be generalised rather than adjusted to the client's needs (Scapens et al., 2003; Nandan, 2010; Kirby & King, 1997).

C2.3 *The Effect of the Background and Motivation of Owner-Managers on the Use of Management Accounting Information*

Across small business this research shows some consistency with the view of Ng et al. (2013) and Lucas et al. (2013) that the background and motivation of owner-managers affects the degree to which they value and use management accounting information. Some owner-managers do not understand the benefits of management accounting information or

the advantages of the skills that external accountants can provide. However, others do understand these points as well as the strengths and limitations with respect to their businesses and its context. The owner-manager of *Bikes Co* is motivated to obtain some profit but is not focused on maximisation. He is under-using management accounting (subs. B6: **OIE1 (Profit Maximisation Not Universal)**). The directors of *Public Private Consulting*, as business consultants themselves, emphasise the centrality for them of understanding their business's management accounting information and have built up a bespoke system to facilitate its use (subs. B5: **NC2 (Optimal Solutions)**).

On the other hand, the managing director of *Construction Engineering*, as an engineer, might be expected to be less aware of or focused on financial management. Yet he knows his limited understanding in this area and is working hard to learn the business's management accounting needs (subs. B4: **NC2 (Optimal Solutions)**). He recognises that the external accountant has relevant skills and could contribute to such information, but the managing director would want to be satisfied in due course that the information was needed and that the cost was worthwhile. The finance manager of *Rad Publishing* had some financial training so she has been able to see areas for improvement (subs B2: **OIE6 (Agents Change Institutions)**), but has also learned from the external accountant. His advice has increased her confidence in her own plans and legitimated the plans in the eyes of other members of the co-operative (**NIS1 (Legitimacy)**). This has increased their willingness to use the external accountant and accept the management accounting proposals of the finance manager. The relationship between the use of management accounting and the background of key managers is therefore nuanced and multi-layered.

C2.4 Whether External Accountants Have Sufficient Understanding of Business: the Evidence from Small Business Cases

Academic literature (such as Lucas et al., 2013; Scapens et al., 2003; Kirby and King, 1997; Reeb, 1993) suggests that external accountants tend to have insufficient general

business understanding to be able to focus their services onto the actual management accounting needs of small businesses. The current subsection considers this point using data from the small businesses so cannot form any conclusions about the intent of their external accountants. (Sections D, E and F below consider it using the SAP cases.)

As discussed in subsection C2.1 above, the relevant managers of *Bikes Co* (subs. B6), *Rad Publishing* (B2) and *Construction Engineering* (B4) all used their external accountant for advice on specific issues that they were concerned about and ended up learning what the accountant could provide. The gap between owner-manager and accountant had been reduced. The owner-manager of *Bikes Co* had not wanted to pay for the full service that the accountant proposed at their first meeting so the accountant scaled it down to meet what the owner-manager wanted. When a financial crisis later arose, he consulted the accountant, who identified an anomaly in the financial data. The accountant then discussed this with the owner-manager, coming to a joint understanding of the cause and solution. This approach began to change the owner-manager's understanding of the need for formal management accounting. The technical ability of the accountant for *Bikes Co* was backed by his understanding that workable solutions come from dialogue, joint deliberation and agreement.

For *Rad Publishing* (subs B2) and *Construction Engineering* (B4), the accountant in each case was similarly able to reduce the gap in the mutual understanding between the accountant and the relevant manager of the small business and as a result increased the trust and awareness of what could be provided. The key features in each case are that the accountant's response was focused on the concerns of the relevant manager of the small business and developed joint understanding through dialogue. These examples are small and a long way from the external accountant having a detailed knowledge of the client's

business, but they do point up that one way to reduce the barriers between the two sides is to tune into the client's concerns and develop joint understanding through dialogue.

C2.5 Promotion of Management Accounting by External Accountants: the Evidence from Small Businesses

The managing director of *Construction Engineering* (subs. B4) sees the external accountant as promoting management accounting because the accountant advises him on what is needed for the business. The managing director trusts that the accountant will point out when something is needed. That advice is itself a form of management accounting. The finance manager of *Rad Publishing* (B2) is confident that the existing external accountant could provide further management accounting services if they were required. However, she finds that when other accountants make contact seeking new customers, what little they say about management accounting is not sufficiently clear for her to judge if it would be worthwhile. In general, the relevant managers of the small businesses investigated do not feel under-informed about management accounting, although in some cases (such as *Bikes Co*) more information and understanding would benefit them. It is not possible to determine the intent of the external accountants in these situations as it was beyond the resources of the research to interview them.

As the previous subsection illustrated, the owner-manager of *Bikes Co* (B6) was unreceptive to the idea of formal management accounting information until the cash crisis. The issue here is that promotion is more than newsletters or a sales pitch. The owner-manager needed to arrive at the point where he saw a need. He was not at that point when he contracted the current external accountant. The accountant responded to the owner-manager's specific request for help over the cash crisis and used analysis, dialogue and interaction to move the owner-manager's thinking forward. Given the owner-manager's previous view of formal management accounting, this would have been unlikely to have worked without the crisis [OIE7 (Evolutionary Change); NC5 (Agents Restore

Optimum)]. This point about promotion through timely practical help and dialogue also comes up in some SAP cases so is considered further in section F.

C2.6 Miscellaneous Barriers – The View from Small Businesses

During the interviews with small enterprises several further miscellaneous points were made about the barriers preventing greater use of external accountants to provide management accounting information.

- If external accountants take non-executive positions on the board of small businesses, that will increase the understanding of management accounting information by the board and allow the accountant to gain a better understanding of the business [**OIE7 Evolutionary Change**]; **NC5 (Agents Restore Optimum)**].
- Focused interaction in response to specific concerns increases trust and reduces misconceptions [**NC4 (Proxies)**, **OIE3 (Perceptions)**].
- Given uncertainty and ambiguity, mathematical models need to be combined with human understanding and intuition [**NC3 (Constrained Optimum)**, **OIE8 (Ambiguity and Uncertainty)**].
- Technical jargon is difficult for non-accountants to follow even for very numerate people [**NIS6 (Normative Isomorphism)**]

Table 16.7**Barriers to Greater Use Of Management Accounting Services – The View from Small Businesses**

Barriers on Either Side	Suggested By
Management accounting from SAPs is not needed because of the simple business structure and co-ordination by only few people.	Quality Engraving Micro businesses
Management accounting from SAPs is not needed because the small firm has developed its own bespoke system.	Public Private Consulting
The owner-manager needs to produce the management accounting information personally in order to learn the firm's needs.	Construction Engineering
The nature of the firm's work means that some management accounting can be estimated and mathematical precision is not needed.	Public Private Consulting Micro businesses
Owner-managers do not always fully understand when management accounting would help, but are seen to have become aware of further benefits of SAPs from the response of the external accountant to the manager's concern.	Rad Publishing Bikes Co
Accountants' jargon is difficult for other people to understand regardless of whether the listener is numerate or not.	Construction Engineering
Unsolicited promotion by SAPs does not explain sufficiently the nature or benefits of management accounting services.	Rad Publishing
Barriers can be reduced if accountants take non-executive positions on the boards of their clients.	Private Public Consulting
Focused responses by SAPs promotes trust and reduces misconceptions.	Construction Engineering Rad Publishing Bikes Co
Given uncertainty, mathematical tools need to be balanced by human understanding and experience.	Private Public Consulting Bikes Co

C3. Conclusions from Section C

While there is a risk that in-house production of management accounting information could create a significant opportunity cost in terms of managers' time (Lucas et al., 2013), the picture that emerges is one of a variety of responses to different situations. In *Construction Engineering* the recent buy-out has created a short-term need for the managing director to personally learn his way into the financial side of the business, although he consults the external accountant when required. The directors of *Public Private Consulting* have spent time in the past creating bespoke software in-house which can now be used to allow them to analyse and act on management accounting without inappropriate use of their time. On the other hand, the finance director of *Rad Publishing* and owner-manager of *Bikes Co* have both gained significant insight by involving the external accountant during crisis. The former also gained legitimacy within her organisation as a result.

The motivation of the owner-manager has an effect in *Bikes Co* and the background of the managers can also be seen to have an effect although not always in the way that might be expected. The relevant managers of all the small businesses saw their external accountant as having sufficient understanding of the business for the type of accounting that the managers required; and that the promotion of management accounting by the external accountants was appropriate to the managers' view of their businesses' specific needs. The level of management accounting provided was well below what the interviewed SAP managers would like to achieve (section D). The interviewed managers of small businesses (sections B and C), however, saw the advice and help that they received from SAPs as focussed on their needs and appropriately promoted and delivered. This is in contrast to the findings in the academic literature (such as Reeb, 1993) that external accountants had insufficient business knowledge to focus onto the actual needs of small businesses. It may be that the approach within SAPs has changed in response to the reduction in demand predicted by ICAEW's 1997 consultation paper (cited in Marriott and Marriott, 2000) because of the cheapness and availability of computers and commercial accounting software.

While there are instances of institutional behaviour in most of the five cases of small non-micro firms, for three of them (*Quality Engraving*, *Construction Engineering* and *Public Private Consulting*) the overall, balance is consistent with neo-classical economic theory, **NC1 (Profit Maximisation)**, **NC2 (Optimal Solutions)** and **NC3 (Constrained Optimum)**. On the other hand, while *RAD Publishing* is consistent with neo-classical economic theory to a large extent **NC1 (Profit Maximisation)**, **NC2 (Optimal Solutions)** and **NC3 (Constrained Optimum)**, there is significant evidence of **OIE3 (Perceptions)**, **OIE5 (Habits)**, **NIS1 (Legitimacy)**, **NIS2 (Decoupling)** and **NIS3 (Isomorphism)**. Hence the overall picture for *RAD Publishing* is **OIE2 (Not Only Optimising)** and **NIS**. The owner-manager of *Bikes Co* is predominantly consistent with OIE rather than neo-classical

economic theory: **OIE1 (Profit Maximisation Not Universal)**, **OIE2 (Not Only Optimising)** and **OIE4 (Non-Optimality Persisting)**. However, he is showing signs of change as a result of learning from the external accountant, but this is not yet optimal [**OIE7 (Evolutionary Change)**]. The position of Bikes Co overall remains consistent with **OIE1 (Profit Maximisation Not Universal)** and **OIE2 (Not Only Optimising)**. The need for significant use of formal management accounting for the three micro firms is so slight that it is not meaningful to try to assess them against either framework.

The main pattern showing among the five small non-micro firm cases is that there are a variety of issues between the cases and different responses to meet those issues. It is therefore too simple a picture to see owner-managers of small businesses as being deterred from using SAPs for management accounting simply by overall factors such as cost, preconceptions or lack of financial understanding as has been suggested in some of the literature (such as Fearn, 1984; Marriott and Marriott, 2000), although such factors do play a part. Overall in the small firms investigated, the processes and behaviours regarding both the use of management accounting in general and the use of SAPs to provide management accounting are often consistent with neo-classical economic theory. There is nonetheless evidence in support of some aspects of OIE, particularly with regard to need for key managers to be continually learning as well as the evolutionary nature of such learning.

Section D

Case by Case Summary of SAPs

Subsections D1 to D5 draw out those findings from the individual SAP analysis chapters which demonstrate the potential of the SAPs to provide further management accounting support to small businesses, particularly with regard to the following issues.

1. The promotion of management accounting support;

2. The external accountants' understanding of business in general and the needs of specific businesses;
3. The barriers to the provision of further management accounting support.

When reporting the annual accounts to the relevant managers of a small business, all of the investigated SAPs follow the normal practice of mentioning management accounting issues that have shown up during the preparation of the accounts, such as prices not covering full costs or too narrow a customer base. This standard practice is therefore not specifically mentioned in the case summaries of each SAP (subsections D1 to D5 below).

The subsections consider the degree to which the behaviour of key managers in the SAPs is explained by the theoretical frameworks in terms of the criteria given in subsection B1 above. The details of these findings and the literature to which they relate can be found in those individual case chapters so are not repeated in section D.

Section E then collates the patterns across the SAPs as a whole. Section F then considers these patterns alongside those in section C in relation to small businesses to compare the views and behaviour of the two groups in relation to the theoretical frameworks.

D1. Zippy Accounting

The owner-manager of the SAP accepts that the take-up of management accounting services by small businesses is limited, but believes that there is a potential market for such services. He personally prefers to work in collaboration with his clients in providing specific solutions to their concerns. He takes trouble to talk through and clarify with the client what information they require. This allows him to focus his service, but an equally important point for him is that it helps the clients to clarify their own information needs. The approach allows better understanding on both sides of what is relevant and achievable and so reduces the expectation gap. The SAP manager places strong emphasis on communication and interaction with clients. He sees the soft skills involved in that as

crucial for building trust. In his view the development of trust, backed by quality services, is an important way of promoting his services to the specific client and, by recommendation, to potential clients as well **[NC2 (Optimal Solutions) in the intent of the SAP Manager]**.

Nonetheless, the take-up of management accounting services remains low and the SAP manager believes that if a client is not interested in such services, pursuing the issue is an inefficient use of time. Even if he believes that he can provide good value with the service, he has to accept what the client's position is and move on **[NC2 (Optimal Solutions)]**.

D1.1 Barriers Preventing Greater Provision of Management Accounting to Small Enterprises – The View of the Manager of Zippy Accounting

1. The owner-managers of small firms tend not to see the value of management accounting services although the development of trust through dialogue and interaction can make some difference to this.
2. Accountants tend to lack communication skills and the training of accountants does not give emphasis to the development of soft skills.

D1.2 Recommendation for Change – The View of the Manager of Zippy Accounting

1. The training of accountants needs to focus on soft skills such as communication in addition to technical skills.

D2. Recent Accountants

The owner-manager of the SAP sees a potentially profitable market for management accounting services. However the take-up by small firms remains low. After qualifying he spent some time working in accounting practices, but also ran an IT business for one and a half years before setting up his own SAP. From his experience in that business he believes that it is more useful to clients for the accountant to concentrate on management accounting services in the wide sense of general business development support rather than

providing information from specific tools. He illustrated this with examples of threats to clients' businesses which would not have been picked up by standard tools, such as an overly narrow customer base, but where he was able to provide practical business solutions. He believes that standard tools such as breakeven are important for small businesses, but that it is better for the client to learn how to print the relevant report from commercial accounting software and read it, rather than to pay to receive it by email from an accountant. He offers a premium service covering business development at extra cost, but because there is little interest in this, he encourages clients to contact him as part of his basic fixed-fee service if they have concerns on which they would like advice. The SAP manager is keeping a reasonable balance between drawing attention to situations in which he believes management accounting would help and avoiding the opportunity cost of his own time in getting to know the client's business well enough to detect risks when it is unlikely to result in the client wanting to pay for a service. **[NC1 (Profit Maximisation), NC2 (Optimal Solutions)]**.

D2.1 Barriers Preventing Greater Provision of Management Accounting to Small Enterprises – The View of the Manager of Recent Accountants

1. Owner-managers of small businesses tend not to see the value of management accounting.
2. The cost of management accounting is a factor in preventing take-up.
3. It is not feasible for accountants in SAPs to spend sufficient time checking a client's accounts to be able to detect risks unless owner-managers are prepared to pay a further fee.
4. The legal requirement to submit annual accounts incurs a cost which owner-managers of small businesses see as producing no benefit for them. This reduces their willingness to pay for anything else from accountants (as proposed by Marriott and Marriott (2000)).

5. Owner-managers of small businesses are more concerned with increasing profit than ensuring structural robustness.

D2.2 Recommendation for Change – The View of the Manager of Recent Accountants

1. The training of accountants needs to focus not just on technical skills, but also on helping clients with overall business development such as how to build a customer base.

D3. Real-Time Accounting

The owner-manager of the SAP believes that there is a potential market for providing management accounting services to small businesses and finds such work more interesting than routine account preparation. She sees the discussion of management accounting issues as a means to demonstrate that the accountant understands the client's business and so helps to establish credibility and build the business relationship with the client. However, the take-up of actual management accounting services is low. The SAP manager is of the view that managers of small businesses do not understand the benefit of such services and that accountants are generally not good at communicating this in order to promote the services. On the other hand she believes that even if you do promote services, clients' limited financial knowledge means that they are still not likely to understand the information that you provide or will fail to take your advice, preferring to ask a friend. Hence it can be difficult to create a workable management accounting relationship. What is needed in her view is training for managers of small businesses to create a culture change so they are prepared to see accountants' work in a more positive way, moving beyond the unquestioned perspective of accountants as the people you have to pay to meet the unwanted statutory accounting requirements.

The SAP manager sees the market as changing: clients are looking for more from accountants, but don't really know what they are looking for. She promotes the use of cloud computing so clients and the accountant have constant access to the business's

financial data. She provides information about available services through a web site, newsletters, emails and by phone. She believes that building trust is essential, but also that the management accounting relationship will not work unless the client is prepared to listen and able to understand.

Overall it is clear that the intent of the SAP manager is to maximise the profit arising from management accounting by optimising her approach to increase take-up [NC1 (**Profit Maximisation**)]. Nonetheless it is not clear that owner-managers of small businesses would share her view of the reasons for the low take-up. It is also possible that she does not fully understand their perspective. This issue is considered further in the analysis across the two groups in section F.

D3.1 Barriers Preventing Greater Provision of Management Accounting to Small Enterprises – The View of the Manager of Real-Time Accounting

1. Owner-managers of small businesses tend not to see the value of management accounting because of a lack of financial understanding and also because of cultural attitudes about the role of accountants.
2. Having to pay accountants for compliance tasks such as annual accounts makes the owner-managers of small businesses reluctant to accept further charged services.
3. Accountants use language which is difficult for outsiders to engage with and do not market sufficiently. Their training does not cover business acumen.

D3.2 Recommendations for Change – The View of the Manager of Real-Time Accounting

1. Training is needed for accountants on business acumen, communication and promotion; and for managers of small businesses on financial understanding and the uses of accountants.
2. Accountants need to be more proactive in promoting their management accounting services.

D4. Planner Accountants

The owner-manager of the SAP used to work in planning for a major car manufacturer and sees this background as an advantage in understanding the management accounting needs of a business compared with someone whose experience has been entirely in accounting. He is keen to work on management accounting which he finds more interesting than the preparation of accounts and believes that a potential market for management accounting exists. However, as with all the SAP cases, he finds that take-up is low. In part he sees this as resulting from the association of accountants with the cost of compliance work such as annual accounts, which has little direct benefit for the small business. He also sees owner-managers of small businesses as tending to have a belief in their business and a reluctance to accept that they need help. He therefore believes that it is important for accountants to quickly demonstrate that they can provide something useful. He tries to set the relationship on a good footing by discovering a quick cash saving such as through tax or reducing the time to achieve a goal that the manager is keen on. The benefit of management accounting is not so easy to demonstrate, but the rapport can be improved by making the managers feel in charge of how the management accounting service is delivered, taking it forward as they wish.

Promotion of management accounting in his view is about a style of working that increases trust as well as informing the client of what is available. Management accounting tasks can sometimes bring a quick payoff for the small business, such as the creation of a customised report or a spreadsheet to meet a specific need. However, his overall approach to management accounting takes into account that the low take-up means that the SAP has to rely on financial accounting for most of its profit. He has to ensure that management accounting is offered and the general performance of the SAP creates a conducive atmosphere of reliability and trust without incurring significant up-front costs for management accounting services which are unlikely to be accepted. His intent is therefore

to maximise the profit of the accounting practice while being able to provide management accounting when it is wanted [NC1 (Profit Maximisation) and NC2 (Optimum Solutions)].

D4.1 Barriers Preventing Greater Provision of Management Accounting to Small Enterprises – The View of the Manager of Planner Accountants

1. A lack of financial literacy among the owner-managers of small businesses leads to a lack of appreciation of the benefits management accounting can bring.
2. Owner-managers have a strong sense of ownership of the processes that they have built up in their businesses so can be reluctant to accept outside advice from an accountant.

D4.2 Recommendation for Change – The View of the Manager of Planner Accountants

1. Training is needed for owner-managers of small businesses on the financial side of the business and for accountants in terms of business acumen.

D5. SE Accountants

One of the most significant aspects of this case is a change that occurred twenty years ago in the approach of the owner-manager of the SAP. After eighteen years of running the SAP based on the traditional role of preparing annual accounts and carrying out other financial accounting [NIS6 (Normative Isomorphism)], the SAP manager attended a training course in the late 1990s (the Accountants' Boot Camp) promoting a more entrepreneurial attitude to running an accounting practice. As a result he began to run the SAP in a more business-like way by seeking to develop added-value services related to the existing traditional work that would optimise the opportunities open to the SAP and so maximise its profit. He started to promote management accounting. The SAP manager still believes that there is a potentially profitable market, but has had to accept that despite twenty years of trying different approaches, he has been unable to create more than a low level of take-up. As a result, management accounting issues are pointed out when the accounts are fed back to the small businesses, but the SAP has now almost given up trying to sell costed

management accounting services. This is despite the fact that the SAP manager believes such services would be cost-effective for the client because the increase in the client's profit would outweigh the fee. His views on why the take-up is low are given in subsection D5.1 below.

The SAP manager is clear that he must rely mostly on financial accounting to provide profit for the SAP. Management accounting is raised with his clients and kept as an option for when it is wanted, but in the SAP manager's view it would be suboptimal to incur significant cost in promoting it, such as by taking time to develop greater understanding of a clients' business, unless the client accepts a charge for doing so.

Since the late 1990's the SAP manager has been seeking to exploit opportunities to maximise his business's profit. About the same time, in 1997, ICAEW published a consultation paper (cited in Marriott and Marriott, 2000) containing a similar view of the need to move beyond the compliance mindset and move into more general business advice. This is now commonplace as the other four SAP cases show. The SAP manager in this case perceived the institutional contradiction in his previous approach of restricting the practice to statutory work such as the preparation of annual accounts. He saw that it was suboptimal and inhibiting the practice's potential profit **[NC5 (Agents Restore Optimum)]**. The current context of this SAP therefore results from a mixture of a history consistent with OIE and conscious actions by the SAP manager. However, it is important to distinguish between the context and the SAP manager's intent over the last twenty years as he decides how to turn the potential market for providing management accounting into an actual profit. As mentioned, his current intent is to keep management accounting as an option that is offered but not to incur expenditure in developing it unless the client is willing to take up a charged service. That intent is consistent with **NC2 (Optimal Solutions)** with a view to **NC1 (Profit Maximisation)**.

D5.1 Barriers Preventing Greater Provision of Management Accounting to Small Enterprises – The View of the Manager of SE Accountants

1. In the SAP manager's view owner-managers of small businesses tend not to see the big picture for their business, concentrating on their core skills, as engineers for instance, and being too busy with their every-day tasks to think further.
2. Owner-managers are deterred by the fee because they fail to understand the overall benefit of the service.
3. The association of paying accountants for statutory requirements, which are not seen as being a useful form for the business, makes owner-managers unwilling to pay for further services as pointed out by Marriott and Marriott (2000).
4. Fear that if prices are raised in order to cover full costs, then that would lead the business to lose customers: this tends to deter owner-managers of small businesses from following managing accounting advice.
5. Accountants' training focuses on technical knowledge and ignores business acumen.

These views of the SAP manager are only one perspective. For instance, owner-managers of small businesses also have a big picture in their minds which is different from the SAP managers' one. The views will therefore be considered further in section F.

D5.2 Recommendations for Change – The View of the Manager of SE Accountants

1. The training for chartered and certified accountants needs to change in order to underline that the key skills for accountants are not just technical knowledge but also business acumen and business understanding.
2. If accountants take on non-executive roles on the boards of small businesses, they can increase the board's understanding of management accounting and their own understanding of the issues facing the business, so narrowing the gap between the managers in small enterprises and accountants in SAPs.

Section E

Analysis Across SAPs as a Whole

E1. The Promotion of Management Accounting

Contrary to the findings of previous research (such as Nandan, 2010) all the five interviewed SAP managers actively promote management accounting within the constraints of what is possible while maintaining the profitability of the SAP. Nonetheless, they vary as to what they see as promotion. They all see a potential market for providing management accounting services and are interested in providing such services, finding them more interesting than routine financial accounting. Nonetheless they find the take-up to be very low and so continue to rely on financial accounting as the main source of profit for the SAP. When feeding back on the annual accounts, they all point out to their clients any management accounting issues that have come to light, but their general experience is that most owner-managers of small businesses stop being interested when a costed service is proposed.

As far as their work in general is concerned, they all claim to compete on quality rather than price and that competition is not particularly severe. These assertions are not entirely plausible since the only significant barrier to starting a practice is the qualification and internet searches show many accounting practices in even small towns. The question was asked in interview as part of general understanding of the context and so was not pursued further. The answer may lie in the fact that all five SAP managers see a reputation for quality work as important for retaining clients and obtaining new clients through recommendation. Emphasis on quality is in effect a form of promotion. The SAP managers would therefore not want to present themselves in interview in any other way.

While all the SAP managers see themselves as promoting management accounting, they use a variety of different approaches. The owner-manager of *SE Accountants* began to

focus on management accounting twenty years ago as the result of a training course which encouraged accountants to be more entrepreneurial. This occurred about the same time as ICAEW was suggesting a similar point in a consultation paper (see subsection D5). The owner-manager of *Real-Time Accounting* emphasises promotion in terms of various electronic means of sending information about services. She also raises management accounting issues in discussion with clients in order to show that she does understand the client's business. Several other of the SAP managers also see promotion in terms of building a business relationship with the client. Central to that is the development of trust that the SAP can deliver something useful. The role of trust is discussed further in section F in terms of the way that owner-managers' trust has been built up by their accountants, narrowing the gap between accountant and client. The owner-manager of *Planner Accountants* stresses the need to show a financial benefit. He recognises that such an approach is easier in terms of account preparation and taxation, so he also tries to express management accounting in terms of increasing profit. He discovers a goal that is personally significant to the client and points out that the management accounting will reduce the time to reach that goal. Another issue is how to convince the client that the service will produce a benefit so he uses agreement on results: if the saving occurs, the client keeps three-quarters and one quarter is the fee. However, that approach also suffers from the problem that an increase in sales or profit, for example, cannot be easily tied down to a single cause such as the application of a particular management accounting technique.

The manager of *Zippy Accounting* strongly believes that soft skills such as communication and interaction are essential as well as discussing issues with clients, not only so the accountant can understand a client's needs and what the client is concerned about, but also to help the clients themselves to move their thinking forward on what would benefit them. Like the other four SAP managers, the manager of *Recent Accountants* believes that some

management accounting tools are essential for small businesses. However, he doubts whether the best approach for clients is when the accountant emails the monthly results of management accounting tools. He believes that it would be better for the clients to learn how to print them from their commercial accounting software and understand their usefulness so that they are motivated to read them. He is also of the view that formal tools cannot pick up all business threats and so, especially for recently formed small businesses, it is also helpful to give broader management accounting advice in terms of general business development such as the need to develop a robust customer base. As covered in subsection E3 below, he points out that the time needed to get to know the business sufficiently to detect risks is an opportunity cost.

E2. Barriers Inhibiting the Take-Up of Management Accounting Services – The View of SAP Managers

Asked about the barriers preventing greater take-up of management accounting services, SAP managers raised a number of issues as shown in tables 16.8 (barriers stemming from the owner-managers of small businesses) and 16.9 (barriers stemming from accounting practices) overleaf. Clearly the views in both tables are based on the SAP managers' perspectives. They are discussed further in section F alongside the perspectives of the managers of small businesses so no conclusions have been drawn in the current subsection.

Table 16.8: Barriers to Greater Use Of Management Accounting Services Stemming from Owner-Managers of Small Businesses – The View from SAPs

<u>Barriers on the Small Business Side</u>	<u>Suggested By</u>
The association of SAPs with the cost of unwanted compliance work deters owner-managers from accepting other charged services.	All SAP cases
The fee for management accounting services seems excessive to owner-managers because the benefit is not understood.	Zippy Accounting Recent Accountants Planner Accountants SE Accountants
Owner-managers do not know what they are looking for from management accounting services.	Recent Accountants Real-Time Accounting
Owner-managers have a generally negative image of accountants.	Real-Time Accounting
Owner-managers are too busy fire-fighting to see the big picture.	SE Accountants

The simple structure of the business may mean that management accounting services are not needed.	Zippy Accounting
Owner-managers tend to give insufficient priority to detecting structural weaknesses in their business.	Recent Accountants
It can be difficult to establish a workable management accounting relationship with many owner-managers because they don't understand what is being proposed and do not follow advice.	Real-Time Accounting
Owner-managers are afraid of seeking advice from SAPs because of incurring a charge.	Recent Accountants
Owner-managers' close association with their business and processes that they have built up makes them reluctant to change.	Planner Accountants
Even if the fee is value for money, the cost upfront is large for some small businesses.	Recent Accountants

Table 16.8 points out that the negative effect of the association of SAPs with the costs of complying with unwanted statutory requirements such as annual accounts were mentioned by all SAP managers. Another prevalent view was that owner-managers failed to understand the benefits of management accounting so saw the fee as too great. A linked point raised was that the value of management accounting services is not appreciated by owner-managers because of a lack of financial understanding. Two other points raised were that owner-managers concentrate on daily tasks without stopping to look at the big picture of the business as a whole; and that they are more interested in profit than detecting structural weaknesses.

**Table 16.9: Barriers to Greater Use Of Management Accounting Services
Stemming from SAPs – The View from SAPs**

<u>Barriers on the SAP Side</u>	<u>Suggested By</u>
Accountants' training should cover business acumen and business understanding as well as the technical aspects.	Real-Time Accounting SE Accountants
Accountants' training should also cover soft skills such as communication and personal interaction.	Zippy Accounting Recent Accountants
Accountants tend not to see the relevance of soft skills so do not opt for such training.	Zippy Accounting
Many accountants have not worked outside accounting practices.	Zippy Accounting Recent Accountants Planner Accountants
Accountants lack marketing skill.	Real-Time Accounting
Accountants' language is difficult for outsiders to engage with.	Recent Accountants, Real-Time Accounting

Barriers can be reduced when accountants take a non-executive role on the boards of their clients, increasing the understanding of board members as to the benefits of management accounting; and helping the accountant to get to know the issues affecting the business.	SE Accountants
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As table 16.9 shows, SAP managers saw a need for accountants' training to change in order to make clear the importance of business acumen, general business understanding and soft skills. Three SAP managers emphasised the advantage for them of having had experience or training outside accounting. Other barriers mentioned were a lack of marketing skill and the problems caused by accountants' jargon. Barriers could be reduced by accountants taking a non-executive role on the boards of small businesses so the other board members could learn the advantages of management accounting and external accountants could learn more about their clients' businesses and the sort of issues that arise.

E3. The Profitability for SAPs of Providing Management Accounting Services

The previous subsections have drawn attention to the need for managers of SAPs to promote management accounting services in certain ways and be ready to provide them. However, they need to do so in a way that does not reduce profitability in the face of the reluctance by the owner-managers of small businesses to take up such services. The owner-manager of *Zippy Accounting* points out that accountants should propose what work is needed, but if the clients disagree, then the accountants just have to accept that: the time spent on further persuasion would be better spent seeking new clients for services that they do want. The owner-manager of *Recent Accountants* pointed out that getting to know the client's business sufficiently to be able to see risks developing would involve an opportunity cost in terms of the accountant's time that would be unlikely to be paid for because of clients' reluctance to accept additional charged services. All five SAP managers try to find ways to offer management accounting services and show the need for them, but have to avoid significant expenditure upfront given the current level of take-up.

The approach to management accounting of all five SAP managers is therefore to continue to offer it, but, in line with **NC2 (Optimal Solutions)** and **NC1 (Profit Maximisation)**, they do not incur significant time or expense on it unless a client is interested.

Section F

Evidence of a Perception Gap between SAPs and Small Businesses on the Use of SAPs to Provide Management Accounting Services

F1. The Response of SAP Managers to the Low Take-Up of Management Accounting Services

As mentioned in section E, all five SAP managers like to do management accounting, seeing it as more interesting than tasks such as annual and financial account preparation. They raise any significant issues when feeding back to clients after preparing accounts and offer a charged service to resolve them, but, because of the low take-up, they see it as economically infeasible to carry out further significant investigation of the issues unless the client is interested in such a charged service [**NC2 (Optimal Solutions)**]. In several of the investigated cases the SAP manager sees a need for accountants in general to improve their understanding of business acumen and communication skills and that training should be widened to include such topics (as suggested by Kirby and King, 1997; Scapens et al., 2003; and Lucas et al., 2013). Nonetheless, all the SAP managers see themselves as promoting management accounting, although they have a variety of views as to what they mean by promoting.

All five SAP managers believe that there is a potential market for management accounting services and that the services would improve the clients' profit sufficiently to easily cover the SAP's fees. Yet they all report that their clients tend not to be interested. In line with the findings of accountants' views in Fearn (1984), Arnold et al. (1984) and Scapens et al. (2003), SAP managers tend to see the low take-up as mostly based in negative attitudes to accountants held by the owner-managers of small businesses, as well as a lack of financial

understanding and limited perspectives. On the other hand, as covered in subsections A1, C1, C1.1 and C1.2 above, the evidence from the small firm cases shows the owner-managers to be using management accounting tools in a mostly appropriate manner [NC3 (**Constrained Optimum**)] except in the case of *Bikes Co* where there is evidence of under-use [OIE4 (**Non-Optimality Persisting**)].

There are two possible explanations for this discrepancy. Firstly, the small firms investigated in this research may not be typical of the SAP's clients because of the small sample size. Secondly, even if the investigated firms do not routinely need more management accounting information and advice, they may require some if their circumstances change. Three of the owner-managers did consult their SAP manager during crisis or major change.

What is clear, as subsection C2 concludes, is that it would currently not be cost-effective for these small businesses to use external accountants to calculate management accounting tools. That is not to suggest that all owner-managers have a full understanding of management accounting. One recurrent factor among the owner-managers in the small business cases is the evolution of understanding as a result of experience and learning, including learning from external accountants [OIE7 (**Evolutionary Change**) or NC5 (**Agents Restore Optimum**)]. Yet the view of the SAP managers that low take-up arises from lack of understanding and limited perspectives on the part of the owner-managers is not fully plausible in the light of triangulation with the small business cases as described in the following subsections.

F2. The Nature of the Small Business

Medium sized firms are likely to have more complex needs, making it worthwhile for them to employ an accountant in-house or contract a service. However, the focus of this research

is to examine how such expertise can be made available to businesses which are too small to have the resources for in-house accountancy provision.

F2.1 Micro Businesses

At the lower end of the size range considered in the research were three micro firms for whom contracting management accounting services from accountants is not useful. Indeed, this research has found that the amount to which these micro businesses need formal management accounting tools is very limited so their minimal use of such formal tools is consistent with **NC3 (Constrained Optimum)**. This suggests that there is a lower limit for formal management accounting to be generally useful when the following four conditions apply.

- a) A very simple structure;
- b) Minimal overheads;
- c) Limited use of capital expenditure;
- d) The details and costs of the few projects being carried out at any one time are known to the owner-manager.

The micro cases are not considered further in section F.

F2.2 Bespoke Goods or Services and Specialist Knowledge

Two of the small firms (*Construction Engineering, Public Private Consulting*) are carrying out only a few jobs at any one time and the approach to the work depends on the specific job. The specialist knowledge and experience of the managers is needed to assess how to carry the work out as well as the amount of time required for different levels of staff, whether in-house or subcontracted. The relevant manager tends to know each particular case in detail and carries out the service costing, assessing the profitability of taking on the job. Once the judgements have been made, the expected cost of the job can easily be calculated from the known costs of the component services **[NC3 (Constrained**

Optimum)). For *Rad Publishing* the decision whether to publish a particular book requires similar expert judgement [**NC3 (Constrained Optimum)**]. For all these businesses contracting out the calculation of cost would not be cost-effective [**NC2 (Optimal Solutions)**]. *Rad Publishing* uses specialist publishing software to facilitate the costing. Similarly, *Public Private Consulting* use bespoke project management software developed over many years by the directors. However, the main resources required are unavoidably the time and experience of the relevant managers.

F3. The Background and Motivation of the Owner-Managers of Small Firms

Until a financial crisis occurred the owner-manager of *Bikes Co* tended to underuse formal management accounting approaches [**OIE4 (Non-Optimality Persisting)**]. On the other hand the balance struck by the owner-manager of *Quality Engraving* between slight use of formal reports from the accounting software and his judgement and experience has allowed him to develop his business and make it profitable over many years [**NC4 (Proxies)**]. The fact that he does not use the external accountant for management accounting services can hardly be seen as financial ignorance or a failure to see the big picture. The directors of *Public Private Consulting*, as business consultants themselves, emphasise the centrality of the management accounting information for their own business, using the bespoke software to separate by staff role the tasks needed for collation of the information from the time spent analysing, understanding and reacting to it [**NC2 (Optimal Solutions)**]. This concurs with the finding of Lucas et al. (2013) that managers with a financial background were more likely to use management accounting. Nonetheless, there is a danger in oversimplistic links to the manager's background. The managing director of *Construction Engineering* is an engineer whose background is not in finance. However, he is aware of that limitation so is working to learn the accounting side of the business [**NC5 (Agents Restore Optimum)**]. He relies on the external accountant for advice, recognising the

accountant's greater skills in that field. Hence it can be seen that agents are not bound by their background or primary training and can be motivated to learn new skills.

The evidence in this subsection confirms the finding of Perren and Grant (2000) that the owner-managers of small firms act as a critical filter influencing what information comes into the firm and also that of Ng et al. (2013) that the background and motivation of owner-managers influences management accounting practices in small businesses, but as part of a complicated mixture of factors in the environment of the firm rather than in a simple one-to-one manner.

F4. Trust and Intangibles in the Context of Imperfect Information

The flexibility of small businesses is rightly seen as one of their strengths, operating with few resources amid uncertainty, ambiguity and imperfect information. One of the advantages of dialogue is that it allows owner-managers to judge whether the accountants can deliver what they are offering. Dialogue allows the accountant to show awareness of and responsiveness to the specific issues affecting the client's business (*Real-Time Accounting*). In this way it allows trust of the accountant to build up and informs the owner-manager's assessment of the risk in accepting a charged contract for a management accounting service when the outcome is unknown [NC4 (Proxies)]. Some of the barriers between external accountants and the owner-managers of small businesses are therefore reduced as proposed in Kirby and King's (1997) emphasis on mutual development of the relationship between the external accountant and the owner-manager to reduce the gap in what they expect of each other. However, the need for such mutual understanding still remains (Nandan, 2010; Lucas et al., 2013).

Another effect of uncertainty is that the mathematical precision of formal management accounting tools is not always relevant, such as when the unpredictability of the next contract makes forecasting imprecise in *Public Private Consulting* [OIE8 (Ambiguity and

Uncertainty)] or when, again in *Public Private Consulting*, the limited options available to a small business mean that mathematical precision will not alter the choice which would be made from an estimate such as whether to accept a particular contract **[NC4 (Proxies)]**.

F5. Developing Insight and General Understanding

The new managing director of *Construction Engineering* is deliberately collating management accounting information in the short term in order to learn his way into the business and what information is needed, but sees that as temporary. It is spilling beyond his normal work time because of the particular circumstances that he is in. This example does, however, have a more general message. Whether because of a change of staff, structure or circumstances, it is sometimes necessary to dig into the detail to understand what is happening. In a small business there may be no one other than the owner-manager with the knowledge to do this. The evidence from *Construction Engineering* therefore extends the finding of Lucas et al. (2013) that owner-managers incur opportunity costs by taking up time to collate management information: this case shows that in particular time-limited circumstances such collation may be optimal for the business **[NC2 (Optimal Solutions)]**.

A further extension of the same point can be seen with the directors of *Public Private Consulting* who have spent time in the past to develop their bespoke project management system so routine data can be entered by the book-keeper. The interviewed director is clear that analysing, understanding and acting on management accounting information are core jobs for managers. The directors of Public Private Consulting can now concentrate on analysis, including the collation of trends over time, in order to develop insight into the state of the business and the direction in which they need to take it. They have detailed knowledge of the current jobs, living them from conception to conclusion, and can see patterns that other staff cannot. Even with training there are limits to what the book-keeper

can do. However, they have designed their system to allow the directors to delegate appropriately to the book-keeper. The time spent on development is now paying off [NC2 (Optimal Solutions)].

The use of a bespoke system by *Public Private Consulting* also throws light on the finding of McChlery et al. (2004) that owner-managers of small businesses were less positive about external accountants' support for management accounting systems than financial accounting ones because the former need more customisation. Commercial accounting software has built-in reports for standard financial requirements such as profit and loss statements and standard accounting tools. The bespoke project management software was built by the directors of *Public Private Consulting* using Microsoft Access database software so must have required not only an awareness of what is needed, built up over twenty years, but also the software skills to develop it and then adapt it to changing circumstances. Most accountants would not have those skills, but, as *Public Private Consulting* do in their consulting work, accountants could work out the business requirement and contract a third party to provide it, subject to the owner-manager of the small firm wanting to pay the cost. The problem with this approach, however, is, as White (1983) and Marriott and Marriott (2000) found, the cost deters owner-managers from taking up management accounting. The comment of the SAP manager of *Recent Accountants* (table 16.8 in section E above) illustrates that small businesses may lack funds to make payments upfront even if the eventual benefit would outweigh the cost. The owner-manager would also have to trust that the proposed system would deliver the promised benefit (see subsection F4 above).

This subsection has referred so far to the insight obtained by owner-managers when they compile management accounting information themselves. However, the use of an external accountant may also provide insight into specific issues and general understanding of how

to deal with as yet unknown problems. *Rad Publishing* and *Bikes Co* both gained insight and more general understanding from the involvement of the external accountant when there was a crisis as described in that subsection. From the evidence in these cases, insight and understanding can be developed from management accounting advice and information provided by the external accountant so long as it is focused on needs or concerns that are meaningful to the relevant manager of the small firm at that particular time and is expressed in terms that the manager can relate to, such as by avoiding jargon. The evidence is therefore consistent with the findings of Kirby and King (1997), Scapens et al. (2003) and Lucas et al. (2013) about the usefulness of external accountants providing well informed and focused management information.

A final suggestion about increasing insight was made by both the SAP manager of *SE Accountants* and the interviewed director of *Public Private Consulting*. If external accountants were to take up non-executive posts on the board of their clients, that would increase the insight of board members as to the benefits of management accounting and allow the accountant to gain greater understanding of the issues facing the small businesses. It is clear that this sort of initiative would help to reduce the barriers from both sides. However, external accountants would not have the time to be on the board of all their clients so its impact would not be widespread.

F6. External Accountants' Understanding of Businesses and Their Promotion of Management Accounting

Public Private Consulting and *Quality Engraving* use their external accountants solely for financial accounting and had confidence in them for that purpose. Their reasons for not using them for management accounting were well grounded in a lack of need. *Rad Publishing*, *Construction Engineering* and *Bikes Co* did use their external accountants for management accounting in terms of consultation and advice. They expressed positive views about the accountant's ability to do the job, their knowledge of the business and their

promotion of management accounting to the extent to which it was needed. In the SAP cases the managers all saw a potential for greater use of management accounting services by small businesses in ways that would increase the profit of the small businesses as well as of SAPs.

Leaving aside the two small firms for which there was no need to use external accountants for management accounting, all the other small firms and the five SAP cases provide evidence which is markedly different from the view in the literature in the 1980s that SAPs were not seeking to engage with small firms beyond financial accounting (Lewis and Toon, 1986), or were insufficiently trained to provide management accounting support (White, 1983). Management accounting support is clearly now on the agenda of SAPs and the evidence from the three cases who have received such services shows those accountants to have an understanding of small businesses and an awareness of focusing their support on the specific needs of the businesses. This has increased the trust of those clients that the accountant can deliver useful advice and information, so making them more willing to use the external accountant to a greater degree. The action of the accountant was therefore optimal [NC2 (**Optimal Solutions**)]. The paper by ICAEW, 'Added-Value Professionals: Chartered Accountants in 2005, A Consultation Document' (cited in Marriott and Marriott, 2000) had pointed out in 1997 that the increased availability of computers and affordable accounting software would reduce the market for the traditional role of accountants, so there was a need for accounting practices to diversify into general business advice. About the same time the SAP manager of *SE Accountants* went on a training course promoting a more entrepreneurial attitude by accounting practices, moving beyond traditional roles such as account preparation and seeking to develop services that added further value beyond the traditional work. This fits with the way in which management accounting is nowadays seen (Jones, 2006). The evidence from the other four SAPs also demonstrates

that the relevance of management accounting and its promotion are now commonplace among SAPs [**OIE7 (Evolutionary Change)**, **NIS6 (Normative Isomorphism)**].

Section G

Conclusion Across SAPs and Small Businesses and Between the Two Groups

As illustrated by figure 16.1 in the introduction to this chapter, sections A to E build towards section F. The current section, G, now draws from section F to summarise the findings of the research in terms of the theoretical frameworks and conclude the cross-case analysis.

G1. The Key Findings of the Research

In contrast to the research findings in the 1980s and early 1990s (such as Lewis and Toon, 1986; Chittenden et al., 1990) the five SAP managers interviewed all find management accounting more interesting than routine tasks such as account preparation and see a potential market for such services. They raise management accounting issues when feeding back to clients on accounts, but because of the low take-up of management accounting services, further significant investigation of such issues is not profitable unless the client is interested in a charged service [**NC2 (Optimum Solutions)**]. Some of the SAP managers accept that there are areas for accountants' practice and training to change, but mostly they see the low take-up as stemming from weak financial understanding and limited perceptions on the part of the owner-managers of small firms. These limitations of owner-managers also featured in 1980s research (such as Fearn, 1984). The case studies of small firms in this research show that the understanding of managers in small businesses (and SAPs) evolves with experience and learning. However, it can be seen from those case studies that it is reasonable in their circumstances for owner-managers not to be using SAPs to calculate management accounting tools [**NC3 (Constrained Optimum)**]. Except for under-use in *Bikes Co* [**OIE4 (Non-Optimality Persisting)**], their use of such tools is

also generally reasonable in the current context of their businesses [**NC3 (Constrained Optimum)**]. The calculation of the tools creates opportunity cost in terms of managers' time in some of the cases, but that can be an appropriate use of the time for a variety of reasons. There is room for SAPs to be used for management accounting support in a customised way at appropriate times. However, the view of SAP managers that low take-up of management accounting services is inappropriately caused by the limitations of the owner-managers of small firms is not fully plausible in the light of the triangulation between the evidence from SAP and small firm cases, as discussed below.

This research is considering how management accounting support can be provided to businesses which are too small to have the resources for in-house accountancy provision. The micro firms studied show that formal management accounting is of very limited use for businesses below a certain level of size and complexity. Secondly, where firms are carrying out only a few jobs at a time and the approach to the work is customised for each job, then designing and costing the job is inevitably linked to the time and experience of the relevant managers and could not be cost-effectively outsourced [**NC2 (Optimal Solutions)**].

It can be reasonable and in line with profit maximisation for only a small amount of formal management accounting to be used in some circumstances when the owner-manager is familiar with all aspects of a business which does not have a devolved structure [**NC3 (Constrained Optimum)**]. However, the motivation and background of the owner-manager are likely to affect the level and appropriateness of the management accounting which is used [**OIE2 (Not Only Optimising)**, **OIE4 (Non-Optimality Persisting)**, **NIS6 (Normative Isomorphism)**]. The factors involved in this can be multidimensional and need to take into account that managers can act to change their skills [**NC5 (Agents Restore Optimum)**].

Three of the small businesses investigated requested management accounting help from their external accountant at critical moments. Because in each case the accountant's response was focused on the specific concern of the client, all three relevant managers were able to reach a satisfactory solution in their particular situation and increased their understanding of the benefits of using the accountant in this way [NC5 (**Agents Restore Optimum**)]. Their trust that the accountant could deliver worthwhile benefit was also increased [NC4 (**Proxies**)]. One manager found that the legitimacy of her actions was also increased in the view of other staff [NIS1 (**Legitimacy**)]. The approach of the external accountants in these cases was to focus on the specific concerns of the clients and provide management accounting advice in discussion so that understanding and trust developed. This approach therefore shows that the accountants were acting in an optimal way to increase the likelihood of being able to provide profitable services in the future [NC2 (**Optimal Solutions**)].

Learning through dialogue in this way is bidirectional: not only does the accountant learn the specific focused needs of the clients, but the clients are able to develop a better understanding of their needs, not just regarding the best solution for a specific issue but also in terms of general understanding of concepts and ways of thinking so they can react more opportunely to new issues. However, the provision of such management accounting support has an opportunity cost in terms of the accountant's time. Unless the client is sufficiently interested to accept the need to pay, the accountant has to limit the amount of time spent. Even if the accountant believes that the fee would be more than recouped in increased profit for the client, when the client is not convinced, then further pursuit of the matter is not profitable for the accountant [NC2 (**Optimal Solutions**)]. Further research could explore techniques for reducing this barrier such as the use of loss leaders or charging a fee only after a free trial period.

In the context of imperfect information and ambiguity, dialogue can allow the client to build up trust that the accountant will deliver a cost-effective result. This allows the client to assess the risk involved in contracting a charged service **[NC4 (Proxies)]** and so is also constrained optimal for the accountant by reducing the client's fear of the unknown **[NC4 (Proxies)]**. Another effect of ambiguity and uncertainty is that the mathematical precision of some management accounting techniques may not be relevant if other factors can only be estimated or the limited options available mean that a formal management accounting technique would not alter the choice which would be made from an estimate **[NC4 (Proxies) and OIE8 (Ambiguity and Uncertainty)]**.

The short-term opportunity cost of collating management accounting information may be justifiable in situations where the manager has to learn the way into a new situation. The learning curve of the managing director of *Construction Engineering* was extreme, but some degree of change is a common business phenomenon and so short-term opportunity cost for learning is justifiable in appropriate situations **[NC2 (Optimal Solutions)]**. In a small business often only the owner-manager has the knowledge or experience to carry it out. In *Public Private Consulting* the development of bespoke software was an ongoing time commitment, but it has now paid off by providing a system which allows efficient and effective use of different staff for appropriate roles **[NC2 (Optimal Solutions)]**. There is a problem with extending the approach of *Public Private Consulting* to other businesses in that the expertise to carry out such development would not be available in most small businesses nor would the SAP usually have the necessary skills. The SAP could develop the business requirement and buy in the IT skills. Management accounting systems tend to require more customisation than the standardised requirements for financial accounting and buying in such skill involves risk that the result would not be worth the cost.

Apart from *Quality Engraving* and *Public Private Consulting*, who did not use external accountants for any management accounting services and can reasonably be seen not to

need to do so [**NC3 (Constrained Optimum)**], the remaining small firms (other than the micros) used their accountant for management accounting support to some degree. Their positive view of that experience and the interest shown in management accounting by the investigated SAPs, shows a different picture from the research in the 1980s when SAPs were seen as uninterested in management accounting and unskilled to provide it [**NC5 (Agents Restore Optimum), NIS6 (Normative Isomorphism)**].

Nonetheless there remains a big gap between the sort of ongoing charged services that SAPs think would be cost-effective for small businesses and the small scale help focused on a specific problem at a particular moment that owner-managers of small businesses have sought and benefited from. To some degree such small scale involvement can be seen to develop trust that might increase the take-up of more extensive services [**NC3 (Constrained Optimum)** on the part of both the owner-manager and the accountant]. However, even if such a service were to be likely to be cost-effective, owner-managers have to judge the initial outlay in money and time in relation not only to the risk of an uncertain benefit, but also in terms of priority over many other possible contenders such as product development or marketing [**NC3 (Constrained Optimum)**].

Differences of perception and understanding remain between SAPs and small businesses, but they could be reduced to some degree by training for accountants. SAPs also need to consider whether their various forms of promotion of management accounting services need to be better focused on the actual concerns of owner-managers [**OIE6 (Agents Change Institutions)**]. One way that this can be achieved is by SAP managers becoming non-executive directors on the boards of some of their clients. This would increase the understanding of other board members of the benefits of management accounting and give the SAP manager a greater awareness of the issues and decisions facing small businesses, although it would not be feasible for SAP managers to take this on for all their clients.

G2. The Overall Picture

This research uses 13 case studies to obtain a detailed understanding of the behaviour and structures within small firms and SAPs. The research seeks to establish whether the behaviour and structures that have been found can be explained by the chosen theoretical frameworks. In doing so it aims to increase the theoretical generalisation of those frameworks. The research does not seek statistical generalisation. Some of the findings may be a sample effect.

In terms of the use by owner-managers of management accounting tools and the degree to which they contract external accountants to provide management accounting information and advice, the behaviour and approach of owner-managers of small firms show some institutional aspects, but on balance are mostly consistent with the assumption of constrained optimisation of neo-classical economic theory. The approach of SAP managers with regard to the provision of management accounting to small businesses is similarly consistent on balance with the constrained optimisation assumption of neo-classical economic theory, although, as with the owner-managers of small firms, there is also some evidence of institutional behaviour on the SAP side.

The findings show a marked change from the situation given in research in the 1980s and later (such as Nandan, 2010) which presented SAPs as uninterested in management accounting or lacking in the skills to carry it out. However, all the interviewed SAP managers like to be involved in management accounting and see it as an integral part of their job. As mentioned above, this may of course be a sample effect, the investigated SAPs may not be typical of SAPs as a whole. Referring to unspecified other accountants, some of the investigated SAP managers saw a need for improvement in the general training of accountants in terms of business acumen and soft skills such as communication and interaction. While this is indirect information, the view arises from contact with

accountants over a long period so is likely to have some validity. Nonetheless, the prevalence of computers and accounting software in small firms means that the role of SAPs is different from the 1980s.

The take-up of management accounting services proposed by the interviewed SAP managers is low. The SAP managers see this as caused by the preconceptions and lack of financial understanding of owner-managers, but this lacks plausibility in the light of the evidence from triangulation with the interviewed small business managers. It may be that the SAP managers' view is valid among other small businesses or that the investigated businesses may themselves need more management accounting support if they grow or their circumstances change.

Three of the studied businesses did seek help from SAPs at times of crisis or major change. The SAP managers successfully provided management accounting advice and information in those cases by focusing on the specific current concerns of the owner-manager. The owner-managers have learned and benefited from this interaction. However, this kind of focused response to a direct, immediate concern of the owner-manager is different from the services mentioned at the start of the previous paragraph, since these are proposed by SAPs. Another possible explanation for the low take-up may therefore be that with those proposals the owner-managers have to take into account not only the uncertainty in the outcome of the proposed service, but also need to balance the initial outlay and time needed against other priorities within their businesses in relation to areas such as product development and marketing. Hence in terms of the investigated small firms at that point in time, the low take-up stems from constrained optimum decisions by the owner-managers in line with neo-classical economic theory. The balanced approach of SAP managers – proposing a service and trying to demonstrate the need while accepting that they must move on if the owner-manager is not willing to take it forward – is also an optimum

approach, allowing them to concentrate their time and other costs on where their services are wanted.

This research studies a small number of cases in depth in order to examine the interaction between agents and structure concerning processes and behaviour in SAPs and small firms with regard to management accounting. This has revealed many underlying causal mechanisms behind the existing practice. The next chapter draws out conclusions from these findings.

Chapter 17 – Thesis Conclusion

17.1.0 Introduction

As explored in Chapter 1, small and medium enterprises (SMEs) make an important contribution to the UK's GNP as well as to employment. Given the competitive climate in which they operate, they need to be aware of relevant management accounting information both internally and in terms of their business context. Medium sized firms often have the resources to maintain an in-house or contracted accounting function for the provision of management accounting information, but smaller firms are unlikely to be able to resource such a provision. Since SAPs tend to be already involved with most small enterprises, they could potentially be a source of management information for them, yet this has not tended to happen. As far as small firms are concerned, little existing research has covered this area and much of it is outdated (Chapter 2). The aim of this research is therefore to investigate the degree to which the owner-managers of small firms compile management accounting information themselves, despite the opportunity cost of doing so, rather than contracting SAPs to carry that out. Since previous research (such as Nandan, 2010) found that SAPs do not promote such services sufficiently, this research also seeks to determine the reasons for this.

In the light of these considerations, the research question and five objectives for the research were formulated (see section 4.0 of Chapter 2). The objectives were as follows.

1. To scope further the extent to which owner-managers carry out management accounting tasks in small enterprises and the opportunity cost involved in doing this.
2. To investigate the reasons why owner-managers of small enterprises tend not to contract SAPs to provide management accounting information.
3. To examine the involvement of SAPs with small businesses and their potential to perform a greater role in providing management accounting services.

4. To investigate the reasons limiting the promotion of management accounting services by SAPs to small enterprises.
5. To evaluate whether relevant existing theoretical frameworks could explain why SAPs are not providing management accounting for small firms and why small firms are not seeking such services.

A theoretical base was developed by examination of the relevant academic literature and appropriate theoretical frameworks were chosen (Chapter 3). The empirical research was designed, based on in-depth case studies of five SAPs and eight small businesses (three of which were micro-sized). A thematic model for analysis of the data was developed (Chapter 4). The thematic analysis of the resulting data is presented in chapters 5 to 16 of this thesis.

17.2.0 Key Findings and Theoretical Frameworks

17.2.1 The Research Aims for Theoretical Generalisation

Given the resources available, the balance of cases has permitted a variety of different scenarios to be evaluated while still allowing in-depth study to detect underlying causal mechanisms behind the observed processes and behaviour. The approach used in this research of in-depth case studies of both small businesses and SAPs provides a rich picture of behaviour and processes, showing how they are shaped by the interaction of actors with internal and external structures. The critical realist perspective facilitates understanding of how such interaction occurs in ways that are complex, sometimes increasing the likelihood of a particular outcome and on other occasions inhibiting it. This leads to tendencies in patterns of behaviour and perception which suggest the underlying and often hidden causal mechanisms. The use of a semi-structured questionnaire has allowed a dynamic understanding of the processes and perceptions behind the observed phenomena in contrast to the static view obtained by surveys. However the aim of this research is not to achieve

statistical generalisation (which would imply that the findings are likely to be valid in terms of all small firms and SAPs). It is rather that the research increases the generalisability of neo-classical economic theory, OIE and NIS by demonstrating their ability to explain hitherto unexplained phenomena. This then allows those explanations to be considered in other situations which further research can then test.

17.2.2 The Extent to which Management Accounting Tools Are Used by Small Firms

Table 17.1 below summarises the use of the six main management accounting tools by the studied small firms.

Table 17.1: Use of Management Accounting Tools by Small Firms *[Addresses Objective 1]*

<u>Small Non-Micro Firms</u>	Product or Service Costing	Breakeven Analysis	Working Capital Measures	Formal Budgetary Planning & Control	Capital Expenditure Appraisal	Responsibility Accounting
Rad Publishing	Yes	Yes	Yes	No	Sometimes	Being considered
Quality Engraving	Yes	Yes	Yes	No	No	No
Construction Engineering	Yes	Yes	Yes	No	No	No
Public Private Consulting	Yes	Yes	Yes	No	Cost comparison rather than formal tools	Yes
Bikes Co	Yes	No	Yes	No	No	No
<u>Micro Firms</u>						
Management and Finance Consultant for SMEs	Service fee is related to cost and market; costs minimal other than personal time, incremental expenses and sub- contracting	Not Applicable	Yes	No	No	No
Management and Impact Consultant						
Procurement Consultant						

The pattern of use of the six tools as found by this research confirms the exploratory research by Lucas et al. (2013) with the respect to extent to which management accounting

is carried out by the owner-managers of small firms, so incurring opportunity cost.

For small non-micro firms the use of tools is mainly for management control rather than decision-making and is what would reasonably be expected for small businesses with simple structures and decision-making confined to one or two people. As far as the three micro firms are concerned, they are all consultancy businesses for which costs are minimal other than for personal time, incremental expenses and sub-contracting. The management accounting information that they need can easily and simply be carried out by the owner-manager, mostly without formal tools or significant opportunity cost. It would clearly not be cost-effective to contract an accountant to produce that. *[Addresses Objective 2]*

17.2.3 The Explanation of the Findings in Terms of Theoretical Frameworks

As well as investigating the behaviour of small firms and SAPs concerning management accounting, this research examines whether that behaviour could be better explained by existing theoretical frameworks in terms of (constrained) optimal decisions for the small business or SAP; or whether non-optimal factors play a role beyond what is inevitable in the short term while a business adjusts to changed circumstances.

For the reasons outlined in Chapter 3 the three theoretical frameworks chosen were neo-classical economic theory, old institutional economics (OIE) and new institutional sociology (NIS).

The key findings and the ways in which they are explained by the theoretical frameworks are covered in section G of the cross-case analysis chapter, but are summarised in table 17.2 below using the criteria defined in tables 16.3 to 16.5 of the cross-case analysis chapter.

Table 17.2: Summary of Findings and Applicability of Theoretical Frameworks

<u>Finding</u>	<u>Related Objective</u>
There is a lower limit to the size and complexity of a business, below which formal management accounting is of limited benefit. It is appropriate for such micro firms to use minimal formal management accounting tools [NC3 (Constrained Optimum)] and not to contract SAPs for management accounting services [NC2 (Optimal Solutions)].	2 & 5
Where delivery of a service requires bespoke adjustment to the service or specialist judgements by owner-managers [NC3 (Constrained Optimum)], contracting out the rest of the cost and pricing calculations tends to be not worth the cost of doing so [NC2 (Optimal Solutions)].	2 & 5
The motivation of the owner-manager may sometimes lead to underuse of management accounting [OIE4 (Non-Optimality Persisting)], but this is not generally the case.	2 & 5
In a simply structured business in which the owner-manager has an overall view of the business, the use of some management accounting tools available from accounting software along with judgement and hunch may provide a constrained optimal solution [NC4 (Proxies)] without needing to contract a SAP to provide such information.	2 & 5
Owner-managers' background can affect their attitude to management accounting, but the relationship is complex as agents can become aware of limitations and act to reduce them [NC5 (Agents Restore Optimum) , OIE6 (Agents Change Institutions)].	2 & 5
Management accounting software needs to be customised to suit the circumstances of the business, but the cost of development of a customised management accounting system can pay off in the medium term [NC2 (Optimal Solutions)].	2 & 5
Management accounting advice from external accountants can help owner-managers to evolve their thinking provided it is focused on the needs of the manager and occurs at a time when the manager is able to understand its value [OIE7 (Evolutionary Change) , NC5 (Agents Restore Optimum)]. It can also help to legitimise the actions of a manager in the small business in the view of other staff [NIS1 (Legitimacy)].	3 & 5
Focused timely management accounting advice and information is an optimal approach by the external accountant in that the increased trust and the understanding that it develops increases the likelihood of the client accepting future services [NC2 (Optimal Solutions)].	3 & 5
The contact between the external accountant and the owner-manager needs to involve dialogue. This not only allows the accountant to become aware of the manager's needs, but also helps the manager to develop their own understanding of their needs. This understanding may be specific to the particular problem being discussed or may shape the manager's general concepts and ways of thinking so they can react more pertinently to new issues [OIE7 (Evolutionary Change) , NC5 (Agents Restore Optimum)].	3 & 5

Continued ...

<u>Finding</u>	<u>Related Objective</u>
Dialogue creates an opportunity cost for the external accountant, so, important as it is, if the client does not accept the accountant's view of what service is needed, the accountant should accept that and move on [NC2 (Optimum Solutions)].	4 & 5
Dialogue allows the external accountant to demonstrate awareness of the issues affecting the small business, building the owner-manager's trust and assessment of the risk of accepting a charged management accounting service when the outcome is unknown [NC4 (Proxies) for the manager of the small firm and NC2 (Optimal Solutions) for the accountant].	3 & 5
Similarly, when the external accountant uses dialogue to reduce the client's fear of the unknown, the accountant's approach is constrained optimal as it increases the likelihood of future services [NC4 (Proxies)].	3 & 5
The mathematical precision of formal management accounting tools is sometimes not relevant because of ambiguity and uncertainty in the data [OIE8 (Ambiguity and Uncertainty)] or because the limited options available mean that the formal tool would not alter the choice made from an estimate [NC4 (Proxies)].	2 & 5
Because of change to a business or its context, it may be necessary for the owner-manager to take time to collate some management accounting information for a limited period in order to gain deeper understanding of a particular issue [NC2 (Optimal Solutions)].	2 & 5
Participation of the external accountant on the board of clients' firms would develop greater understanding of management accounting information by other board members and allow the external accountant to experience the issues facing small businesses [OIE7 (Evolutionary Change) , NC5 (Agents Restore Optimum)].	3 & 5
The positive attitude of SAP managers towards management accounting shows a marked change from the position in the 1980s [NC5 (Agents Restore Optimum) , OIE7 (Evolutionary Change) , NIS6 (Normative Isomorphism)].	3, 4 & 5
The small scale focused management accounting help welcomed by owner-managers is well short of the charged services that SAP managers think would be cost-effective for small firms; but even if owner-managers were to see the services proposed by the SAP as cost-effective, they have to consider the outlay in money and time in terms of priority in relation to many other possible contenders such as product development or marketing [NC3 (Constrained Optimum)].	2 & 5
Given the gap between SAP managers and owner-managers of small businesses as to what sort of management accounting services are appropriate, SAP managers need to consider whether their promotion of management accounting needs to be better focused on the actual concerns of owner-managers [OIE6 (Agents Change Institutions)].	4 & 5

Research in the 1980s and later (such as Arnold et al., 1984; Nandan, 2010) found that small firms did not make adequate use of management accounting because of a lack of financial understanding. However, the findings of this research show that, because of their small size and lack of complexity, the investigated firms mostly do not need more management accounting than they are currently using. The difference from the results in the 1980s may stem from the particular cases that were investigated, but technological change is likely to have also played a role with the availability of computers and relatively cheap accounting software. *[Addresses Objective 2]*

The opportunity cost in terms of the owner-managers' time to collate the information was also found to be worthwhile in certain circumstances by increasing the manager's understanding of the business. Nonetheless, the evidence also shows several instances of owner-managers consulting the external accountant when they had a particular problem. This resulted in useful outcomes. *[Addresses Objective 2]*

In these ways, this research provides greater understanding of the management accounting needs of small firms and the actual and potential roles of SAPs in helping to meet those needs. Contrary to the previous research mentioned in section 17.1.0 above, the findings confirm that the investigated SAPs do actively promote management accounting to the extent that it is cost-effective for them, given the opportunity cost in terms of their time and the likely level of take-up by owner-managers of small firms. Their level of promotion is therefore constrained optimal and consistent with neo-classical economic theory. *[Addresses Objectives 4 & 5]*

Although there are some instances of institutionalised behaviour on both sides, the overall picture obtained of most of the investigated SAPs and small businesses is that they are generally behaving in a constrained optimal manner in terms of management accounting in line with neo-classical economic theory. This is contrary to previous research (such as

Lewis and Toon, 1986; Fearn, 1984) which found that institutionalised behaviour predominated in small firms and SAPs, often resulting in significant deviation from constrained optimisation. *[Addresses Objective 5]*

At first sight the view of this research that both SAPs and small firms are behaving optimally could be seen to suggest a contradiction in the data. The interviewed SAP managers all believe that there is a potential market for them to sell management accounting services to small firms and that the take-up of such services by small firms is still well below the level that the SAP managers believe would be cost-effective for the small firms. The view of SAP managers is therefore that there is still room for some small firms to benefit further from greater use of management accounting. Yet the evidence of the research also shows that most of the investigated small businesses do not routinely need more management accounting than they are currently using. *[Addresses the potential contradiction between objectives 2 and 4]*

One explanation of this apparent contradiction could be that the SAP managers have worked with many small firms over the years so their view could be valid overall, even though it does not fit the small companies investigated in this research. As discussed in subsection 17.2.1 above, the research is based on detailed investigation of a few cases in order to discover how behaviour and processes arise from the interaction between actors and structures. It does not claim to provide statistical generalisation across all small firms.

[Addresses the potential contradiction between objectives 2 and 4]

A second explanation of the apparent discrepancy is that the studied firms may need further management accounting information and advice if they grow, change their structure or their circumstances alter unexpectedly. Indeed, three of the investigated small firms had sought management accounting advice because of a crisis or major structural change. The key to the positive outcome in those three cases was that the owner-managers sought help for a specific problem and the SAP manager responded by focusing on that specific

concern in a way that developed the understanding of the manager of the small firm. This supports the view expressed by some SAP managers that accountants' training should give greater emphasis to soft skills such as communication and interaction. *[Addresses the potential contradiction between objectives 2 and 4]*

The third factor involved is that a SAP manager may rightly see a cost-effective management accounting improvement for the small firm, the increased profit outweighing the accountant's fee. However, the owner-manager is likely to need to prioritise between many potential improvements in different aspects of the business. A marketing specialist might also be proposing a cost-effective marketing improvement, for instance, or the owner-manager may see benefit in product development. It would not be feasible to choose all of them since they have an opportunity cost in terms of initial payments and the owner-manager's time. Hence cost-effectiveness cannot be the sole criterion. *[Addresses the potential contradiction between objectives 2 and 4]*

A fourth reason may be that SAP managers are wrong in their view that small firms could benefit from a fully costed management accounting service given the context of uncertainty, ambiguity and limited options in which small firms operate. Even if the SAP managers see benefit for the firms, they may be misunderstanding the reasons for low take-up. *[Addresses the potential contradiction between objectives 2 and 4]*

What does emerge from this research is that in certain circumstances there may be a market for SAPs to provide management accounting information and advice to small firms, not so much in terms of the six main tools referred to in subsection 17.2.2 above, but rather with regard to broader management accounting advice tailored to the perceived need of the client and helping to develop greater understanding of management accounting as demonstrated in the SAP managers' responses to crises in Bikes Co and Rad Publishing. Future research with a larger sample would be required to establish whether there is a market across small businesses as a whole for further management accounting services.

Such research could be designed around the findings of this research, such as the need for the SAP to focus on the specific concerns of the small firm at a certain point in time and the use of soft skills to develop mutual understanding. *[Addresses Objective 4]*

The evidence from several small business cases demonstrates that accountants in SAPs can interact successfully with the owner-managers of small firms, increasing the owner-managers' understanding of the ways in which management accounting can be of benefit as well as the role of SAPs in that. This is in contrast to the research findings in the 1980s and later (Nandan, 2010; Lewis and Toon, 1986; White, 1983) which described accountants at that time as seeing their role solely in terms of compliance work and lacking the inclination and skill to take on management accounting. *[Addresses Objective 3]*

As mentioned above, the relevant manager in three of the small business cases sought management accounting help from the SAP manager, whose response remained focused on the owner-manager's specific concern. What emerges from the evidence in both SAP and small firm cases is that dialogue is essential between the accountant and the relevant manager of the small business. The learning from that dialogue is bidirectional. The accountant learns the specific needs and concerns of the manager of the small business; while the manager is also able to develop a better picture of their own need and what is achievable, not just in relation to the current issue, but in terms of general understanding that can help resolve future issues. However, if the manager of the small business is not convinced by the benefit of a charged service that the accountant proposes in order to remedy a problem, then, as the SAP manager of Zippy Accounting expressed it, the accountant needs to accept that and move on. Further time spent creates an opportunity cost and the time is better spent on services that clients do want. *[Addresses Objectives 3 & 4]*

Subsection F6 of Chapter 16 points out how accountants' thinking about management accounting has changed since the late 1990s, bringing management accounting to the fore.

So the centrality of management accounting in the thinking of the interviewed SAP managers may be typical of a change since the 1980s research. Nonetheless, it may also be that the approach of those five SAP managers and the evidence from the small business cases of successful interaction between SAPs and small businesses is untypical of accountants as a whole. Several of the interviewed SAP managers identified a lack of knowledge of clients' business operations and limited communication skills on the part of accountants in general as barriers to successful interaction. They expressed the view about accountants in other practices rather than their own. *[Addresses Objective 4]*

“I know [the accountant in the next street] is a very dry old stick.”
(SAP manager respondent)

This evidence about external accountants is clearly indirect as none of the interviewed SAP managers were found to be like this, but it still has some validity in that the SAP managers mentioning this point have formed the opinion through their contact with other accountants over many years. It may also be that they are seeking to distinguish the way that they themselves have changed. Without further research it is therefore not possible to determine the extent to which such accountants still exist. *[Addresses Objective 4]*

However, there is a need for accountants' training to give emphasis to the soft skills of building trust and interacting; and also for the provision of training for owner-managers of small firms on how management accounting can make their firms more robust if the firm expands. Involvement of accountants on the board of small firms is a further way in which both sides can learn from each other. *[Addresses Objective 4]*

The next two sections consider the contribution of this research to theory and to knowledge of the issues researched.

17.3.0 The Contribution of the Research to Theory

This research shows that behaviour which may at first seem to be suboptimal because of institutional preconceptions may turn out to be constrained optimal and consistent with neo-classical economic theory once the particular context is understood. An instance of this is found in an issue already discussed in a different context in subsection 17.2.3. The interviewed SAP managers all draw the attention of the owner-managers of small businesses to any problems which have come to light while they have been working on annual accounts and other financial accounting. To remedy the problem, they offer a charged management accounting service, which in their judgement would be cost-effective for the small business concerned. Nonetheless, the take-up of the services is low and they attribute this to institutional preconceptions by the owner-managers of small firms. As mentioned in chapter 2, some previous research has also taken this view (such as Fearn, 1984; Arnold et al., 1984). However, the use of a case study approach to triangulate between SAP and small firm cases, coupled with the awareness from critical realism of the effect of the structures impinging on each small business, brings to light a different picture. It shows that, despite some instances of institutional behaviour and preconceptions, the low take-up can be explained to a large extent as a constrained optimal response by the owner-managers in the light of the specific circumstances of their business. The behaviour is therefore very often consistent with neo-classical economic theory, despite the SAP managers' view that it is based on institutions.

Furthermore this research demonstrates that managers make a conscious choice, as proposed by Seo and Creed (2002), to remedy institutional contradictions when they arise because of limited understanding or skill, both in other people's behaviour and in their own. Managers can change their own behaviour to create an optimal response, such as when the new managing director in Construction Engineering recognised the need to overcome his lack of experience in the financial side of the business and has temporarily

taken on management accounting tasks that would not normally be seen as appropriate to his role.

The research also explores the effect of institutions on actors as proposed by approaches such as Burns and Scapens's (2000) framework drawing on OIE. Despite the example above of actors correcting suboptimal behaviour, the evidence in this research also contains instances which confirm Burns and Scapens's (2000) view that actors resist change because of taken-for-granted assumptions that remain unquestioned. The findings confirm the proposal of Perren and Grant (2000) that owner-managers act as a critical filter, controlling what information enters the organisation from the external environment. On the one hand, an example of this is the trend mentioned at the start of this section for owner-managers to decline certain management accounting services because of decisions which are optimal in the context of the individual business. On the other hand, there is also evidence of the rejection of some management information services, as for instance in Bikes Co where the owner-manager underrated the importance of management accounting because of taken-for-granted assumptions in line with OIE. This led to a financial crisis which could have been avoided if the relationship between hours quoted for and worked had been monitored.

The research also draws attention to the importance of trust and rapport in facilitating change. When external accountants were approached by owner-managers at times of crisis or difficulty, their focused response led to the creation of trust that the accountant could deliver benefit and a willingness to use the accountant more. Hence the expectation gap between external accountants and owner-managers of small businesses was reduced, a need pointed out by Kirby and King in 1997 and in several other research findings up to the current time (such as Ribeiro and Scapens, 2006). At one level, if that trust is not soundly based, it can be seen as the development of a non-optimal preconception

consistent with OIE. However, trust plays a significant role for owner-managers when they are making a constrained optimal assessment of the risk of entering a charged management accounting contract for which the outcome is unknown. Furthermore, the evidence also shows that SAP managers use the development of trust as a way of encouraging the take-up of management accounting services to optimise the SAP's profit. Hence in both those ways trust is consistent with constrained optimal decision-making as assumed by neo-classical economic theory.

The use of dialogue by external accountants is shown by the evidence from this research to be an important part of the development of trust. It also allows the accountant to establish the client's need and helps the clients themselves to become clearer what their need is. Furthermore, shaping the service through dialogue allows owner-managers to feel in control of the service, an explicit aim expressed by the SAP manager in Planner Accountants as a way of increasing acceptance of management accounting services in order to overcome owner-managers' reluctance to change processes that they themselves have developed (in line with Ng et al., 2013).

There is evidence of rule-following behaviour rather than the use of formal management accounting tools when uncertainty or ambiguity make the theoretical additional precision of formal tools invalid or irrelevant. This is particularly the case when small businesses are choosing between limited options so the use of formal tools would not change the outcome. The owner-managers also express the view that formal management accounting tools do not always accurately model the complexity of the real world so managers have to make judgements based on experience and intuition (as found by Ng et al., 2013). This use of rules, experience and hunch can be seen as conforming with OIE, but could also come within the constrained optimum assumption of neo-classical economic theory provided it is not evidently sub-optimal.

NIS proposes that professionalization leads to similar behaviour between various organisations because the common norms of members of a profession lead to normative isomorphism (DiMaggio and Powell, 1991). This research refines that approach in that the varying professional backgrounds of owner-managers of small firms lead to some dissimilarity in approach across small firms. Furthermore, because the managers are capable of assessing their skill gaps and the usefulness of their professional experience in the context of managing their business, they are capable of acting to modify the institutional assumptions of their profession when necessary. Their professional background therefore sometimes leads to the insight that the status quo of the firm needs to be changed, but on other occasions managers override the constraints of their background. The evidence from this research shows that in some cases (such as Construction Engineering) the professional background of owner-managers can lead to a reduction in homogeneity rather than increasing it.

The research also shows that owner-managers of small businesses tend to see some of the statutory financial requirements, such as the preparation of annual accounts, as expenses which do not benefit the business. In line with NIS's proposal of coercive isomorphism they comply with these requirements for legal reasons rather than to provide useful information for running the business. In line with the finding of Marriott and Marriott (2000) the involvement of SAPs in this coercive work colours the owner-managers' view of SAPs, tending to make the owner-managers reluctant to take on further charged services. This is therefore one of the reasons why SAPs need to build trust that they can deliver worthwhile benefits to the owner-managers.

In line with NIS this research confirms that legitimacy can be a significant issue within organisations. The finance manager of Rad Publishing finds that endorsement by the external accountant increases the legitimacy of her planned actions in the eyes of other

staff. This reduces opposition to her plans and makes them more likely to be implemented. In the same case, when a loan was being sought, the funder required the firm to include some forms of long-term planning which the finance manager saw as unrealistic for a small firm which had to be continually adapting to circumstances. Hence, the implementation was carried out ceremonially because of external pressure rather than to enhance efficiency. This sort of detachment between the organisational view and the pressure from its external environment is a straightforward instance of the NIS concept of decoupling. However, the research also extends the concept of decoupling to relate to a conflict between institutions within the same organisation. This extension concerns a separate aspect of the same case, involving budgeting. The finance officer accepted the funder's view that budgeting would enhance efficiency by delegating responsibility to the departmental heads. However, implementation was patchy. What appeared to be resistance to an organisational change, the introduction of budgeting, actually arose from incongruity between two of the deeply held underlying institutions from which the organisation's goals emerge: on the one hand, the efficiency and effectiveness of the collective ethos within the co-operative which requires all members to take responsibility for the business and, on the other hand, the responsibility of individual members of the co-operative, in this case the departmental heads.

17.4.0 The Contribution to Knowledge

This research provides insight into the common patterns and the diversity of the management accounting practices of specific small firms. It explains in terms of existing theories the balance between the opportunity cost of management accounting carried out by owner-managers and the cost of contracting SAPs to provide such services. In this way it extends the research of Lucas et al. (2013) by investigating the reasons why owner-managers of small firms tend not to contract SAPs to provide information calculated with the main management accounting tools.

The evidence from this research establishes that SAP managers see management accounting as part of their role and are keen to carry out this type of work. However, they rightly recognise that owner-managers of small businesses tend not to accept the management accounting services that the SAP managers propose. If an owner-manager is not interested in taking up a charged service, SAP managers limit the time and cost of promotion in line with the profit maximisation assumptions of neo-classical economic theory. The reasons why owner-managers may not want to accept such services are considered in subsection 17.2.3 above.

The research also extends the work of Burns and Scapens (2000) by a detailed examination of the complex relationship between institutions and actors, not just intra-organisationally in terms of OIE, but also between similar and different organisations in terms of the assumptions of NIS. The critical realist perspective has assisted the understanding of the diversity of practice and the interaction of institutions and agents, whose behaviour on the one hand is shaped by institutions, but who can choose to modify the institutions, albeit often within a perceptual paradigm that is to some degree recursively shaped by those institutions. In this way the perceptions and behaviour of agents may be influenced by history, but, crucially, agents can perceive that and change.

Owner-managers and SAP managers learn from experience. Such learning is reflected in the evolutionary nature of change as proposed by OIE that is a recurrent feature in the evidence from this research. Learning is also accepted by neo-classical economic theory to the extent that it is part of a business's return to optimum after circumstances change. An example of this evolutionary learning has been shown by the behaviour of SAP managers who responded to concerns raised by their clients during crisis or major change. They did so by focusing specifically on the issues raised by the client, creating an atmosphere in which owner-managers learned more about the advantages of management accounting,

increasing the likelihood that they would want such services from the SAP. In this way the SAP managers were acting to maximise the SAP's future profit in line with neo-classical economic theory. Although the research does not claim statistical generalisation, it does show within the cases it examined a very different picture from that painted in research in the 1980s and since in which external accountants were seen to have institutionalised preconceptions about the role of SAPs and to demonstrate neither the skills nor the interest to provide management accounting advice (Nandan, 2010; Lewis and Toon, 1986; White, 1983). In the cases investigated by this research, SAP managers are showing an evolution in thinking over the last 30 years.

Furthermore, the effect has been to increase owner-managers' trust that SAPs can deliver useful management accounting information and advice. This reduces the barriers to owner-managers' use of SAPs for management accounting and so this research has extended the research of Lucas et al. (2013) on the need to find ways to reduce the barriers by making both sides better informed about each other. The evidence shows that the SAP manager must remain focused on the issue of concern to the client for trust to develop, but must also encourage dialogue so two-way learning can occur. The research has therefore extended the work of Ribeiro and Scapens (2006) by examining the effect of intangible factors such as trust and dialogue in reducing resistance to change.

This evidence on the nature of the successful interaction between SAPs and owner-managers of small firms is also important in throwing light on the finding that there is low take-up by the owner-managers of small firms of management accounting services proposed by SAPs even though the SAP managers see the services as cost-effective for the small firm. The reasons behind this apparent discrepancy are covered in subsection 17.2.3 above. However, the issues raised here concerning the importance of dialogue and trust are also significant. One key difference of this sort of service is that it is proposed by the SAP

manager rather than sought by the owner-manager. The outcome of such services is inevitably uncertain at the time the service is contracted, so the owner-manager needs a reason to trust that the service is likely to be cost-effective. An emphasis on two-way dialogue between the SAP manager and the manager of the small business would allow the SAP manager to understand whether the proposed service fits with the owner-manager's own plans for strengthening the business as well as helping the owner-manager to assess whether the promised outcome of the service would materialise. It would also allow the owner-manager to consider how that outcome would help to achieve his or her own plans for the business.

17.5.0 The Key Implications of the Research

17.5.1 The Implications for Academic Research

Firms too small to afford in-house management accounting provision might be expected to use SAPs for management accounting. Previous research has shown that this tends not to occur, but evidence as to what barriers prevent such use has been limited and contradictory. This research provides insight into the barriers and how they can be overcome. The sample of eight small businesses cannot be taken as representative of all such firms, but the findings do not support the view of previous research that general financial education is needed for the owner-managers of small businesses. While it is possible that such training might benefit new start-ups, the investigated firms were broadly using management accounting tools to an appropriate degree and generally had a good understanding of their routine financial needs. However, this research does demonstrate that small firms do benefit from management accounting advice during crises or structural change such as after re-organisation or expansion.

17.5.2 The Implications for the Owner-Managers of Small Firms

Even though owner-managers may not routinely need greater management accounting support from SAPs, this research shows that there can be significant benefits in seeking

focused support from them in response to specific problems which cause financial issues with which the owner-managers are not familiar, whether that arises from planned development or unanticipated events. This research gives examples of such successful support, demonstrating how barriers to engaging with SAPs have been overcome and that the resultant learning can have general benefits beyond the specific problem.

17.5.3 The Implications for SAPs

This research has demonstrated that professional attitudes and training can inhibit the success of management accounting support for small businesses, but that there is a market for such support provided that it is focused on the specific concerns of the owner-manager of the small firm. The use of dialogue is central not just for developing understanding of the client's needs, but also to allow the client to clarify their own understanding of what they need and develop trust that the support will be cost-effective. Attendance at clients' board meetings is also a channel for increasing clients' understanding of management accounting and learning the issues relevant to the firm.

17.5.4 The Implications for Accountants' Professional Bodies

Based on the views of SAP managers and owner-managers of small firms as well as evidence of how they have interacted successfully, this research will help accountants' professional organisations to strengthen training so that the take-up of management accounting services by small firms can be optimised. Key issues are to focus support on the specific issues of concern to the owner-manager of the small business and develop trust and understanding through dialogue. The interviewed SAP managers all saw management accounting as integral to their practices, but alluded to other SAPs whose focus was solely on financial accounting. There is therefore a need to establish whether a management accounting approach is integrated across SAPs as a whole.

17.6.0 The Limitations of the Present Research

As mentioned in subsection 17.2.1 above, this research uses in-depth case studies to produce a rich picture of the behaviour and processes involved in the generation and provision of management accounting information and advice to small businesses. However, it does not seek to achieve statistical generalisation across small businesses as a whole. The findings can be extended in future research by being tested on other small businesses, but it would be statistically invalid to claim that the results of the research apply to all small businesses.

Hence, on the one hand, the interest of all the interviewed SAP managers in management accounting may be part of a genuine change in the attitude of accountants since the 1980s research (see subsection 17.2.3 above). On the other hand, these five SAP managers may be untypical of SAP managers as a whole. Similarly, this research differs from the 1980s research findings that owner-managers of small firms did not adequately use management accounting. The picture in this research may arise from genuine change (section 17.2.3 above) or may arise from the small sample.

It is recognised that qualitative research using case studies is time-consuming and the high level of detail in the findings can make analysis confusing. The number of cases investigated in this research and the degree of detail sought therefore has had to be constrained to fit the resources and time available. The findings are based mostly on interview data. While the semi-structured approach allows cross-checking and assessment of the plausibility of the responses, it is accepted that to some degree interview responses have to be taken at face value. As Flick (2009, p. 222) points out, ‘interviews ... only make the accounts of practices accessible instead of the practices themselves.’ Direct observation of behaviour would therefore have tended to increase accuracy so the research could have benefited from combining participant observation with semi-structured interviews.

However, small firms, including SAPs, have limited staff and the owner-manager is generally the only person who knows fully about the business. Owner-managers were reluctant to give the time to be interviewed. Furthermore, gaining access to carry out observation was impossible since the researcher did not have personal contacts with key actors in the firms to facilitate access.

The ability to triangulate between the data from SAPs and small businesses added a powerful technique to the research, but this could have been stronger if matched pairs of a small business and its specific SAP had been selected in each case. In this way the reasons given by the owner-manager of the small business for not taking up an offered management accounting service, for instance, could be compared with the view of the SAP manager on the cost-effectiveness of that service for the small business. However, this approach had to be rejected because it would have reduced further the number of respondents available for interview. Furthermore, it is not possible to ascertain whether the interview responses would have been as open if the answers were being checked with the other party to the contract. The researcher's lack of personal contacts in the pairs of organisations means that trust could not be built up to overcome the participants' concerns on this point.

A longitudinal study would have been able to check changes in the attitudes in SAPs and small businesses over time and whether the take-up of management accounting services from SAPs was changing. The timespan available for this research prevented such an approach.

In the research several of the SAP managers referred to the need to improve the training of accountants in terms of business acumen and soft skills such as communication. The five interviewed SAP managers did not appear to need such training themselves and were referring to accountants from other practices rather than their own current position. They

were expressing a view based on their experience of other accountants so their view has some plausibility, but it is not possible to determine directly from this research the degree to which accountants need such training.

The interviewed SAP managers see a market for management accounting services for small businesses, but attribute the low take-up to the financial ignorance of owner-managers. This is mostly not supported by this research's investigation of eight businesses. The research was not designed to provide statistical generalisation across small businesses as a whole so it is possible that a larger sample would have provided a significant degree of support for the SAP managers view.

17.7.0 Areas for Future Research

As the previous section points out, further research using participant observation or an ethnographic approach could overcome the limitations inherent in interviewing. The findings of the present study could be used to help design such research.

The understanding of the best way for small firms to increase their financial robustness could be extended by further research using matched pairs of a small business and the SAP that it uses. This would increase the internal validity of the data since the small business and the SAP would both be responding to the same service offer, allowing the researcher to triangulate the responses of the SAP and the small business to a specific situation.

The findings of this research on ways in which the barriers between SAPs and small businesses have lessened would allow a future longitudinal study to establish benchmarks that could be monitored over an extended period to determine the degree to which trust is being generated between small businesses and SAPs and whether a useful business partner relationship has been able to develop.

Since the expectations of small businesses and SAPs toward each other may be culturally determined to some degree, comparative studies between different countries might bring out the ways in which the expectations differ and how that affects the availability of management accounting information and advice for small businesses.

One factor influencing the take-up of management accounting services that has been apparent in this research is the need for the owner-manager of the small business to be able to judge whether the charged service being offered by the SAP would be able to provide sufficient benefit to warrant the fee. This suggests that it would be valuable for future research to focus on ways in which SAPs can overcome the concerns of owner-managers on this issue. SAPs and small businesses could be encouraged to create ways of shaping the cost profile of the service such as by requiring payment only if the owner-manager of the small business wants to continue beyond a trial period.

Several SAP managers suggested that accountants need to improve their business acumen as well as their soft skills in order to be better able to carry out management accounting. The research suggests from a limited sample of SAPs and small businesses that accountants have changed in this regard, but it is not clear how widespread the change is. A larger quantitative study with a representative sample could establish the degree to which a lack of such skills exists among accountants in SAPs.

The interviewed SAP managers in the research are of the view that management accounting services are needed for small businesses and believe that they are offering such services in a way which would be cost-effective for the small businesses. The SAP managers see the low take-up to be caused by owner-managers' lack of financial understanding. The present investigation of small businesses mostly did not support this, perhaps because of the particular firms in the small sample. Further research with a representative sample could establish if the SAP managers' view is valid.

Table of Statutes

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Appendix A – Research Project Information and Consent Form



Business School

**The Open University
Business School**

Walton Hall
Milton Keynes
United Kingdom
MK7 6AA
Tel +44 (0) 1908 655 888
Fax +44 (0) 1908 655 898
www.open.ac.uk/oubs

Research Project Information and Consent Form

Project Title

SME management accounting needs and the role of small accounting practices (SAPs).

Name of the Researcher

Vandana Tripathi –The Open University, UK.

Purpose of the Research

The research is solely for academic purposes as part of my PhD thesis. The research will examine the degree to which management accounting for small enterprises is carried out by the owner-managers and, given the considerable opportunity cost resulting from that, to investigate the reasons for not contracting SAPs to carry out management accounting. It also aims to determine whether SAPs are pro-active in marketing these services. The research will use a case study approach, involving semi-structured interviews with owner-managers or senior executives and with accountants, in order to obtain detailed qualitative data, which will then be analysed thematically.

Duration of the Interview

Semi-structured interviews will be carried out in the settings of the participants lasting on average 45 minutes to an hour.

Benefits to the Participants

There are no immediate benefits for the participants. However, the fieldwork will provide an opportunity for owner managers and accountants in SAPs to highlight the context of small enterprises and SAPs allowing detailed understanding of the factors impinging on the relationship between them. Research participants will be provided with a copy of the research report on request.

Risks to the Participants

The interview will cover solely the management accounting needs of small enterprises and the role of SAPs in meeting those needs. Research participants will not be subjected to any psychological or physical risk. Potentially negative information damaging participants' reputation will not be published in any identifiable way.



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SME management accounting needs and the role of small accounting practices (SAPs).

Consent to participate in this research project

Name of Participant: _____ Name of Researcher: **Vandana Tripathi**

I consent to participate in this project. I have been given a written description of the project as above, which has been explained to me.

I understand that my participation will involve an interview and agree that the researcher may use the results as described in the statement above.

The possible effects of participating in this research have been explained to my satisfaction. I understand that I may withdraw from the project up to the time when the data is analysed (July 2015) and withdraw any unprocessed data that I have provided.

I understand that the project is for research and that the confidentiality of the information that I provide will be safeguarded subject to any legal requirements. My real name will not be used. I also understand that the data generated will be stored securely at the Open University and destroyed once the research project is complete.

I consent to this interview being recorded ☐ Yes ☐ No

I wish to receive a copy of the summary project report on the research findings ☐ Yes ☐ No

Participant's signature: _____ Date: _____

Appendix B – Approval by the Open University Human Ethics Committee



The Open University

From Dr Duncan Banks
Chair, The Open University Human Research Ethics Committee
Email duncan.banks@open.ac.uk
Extension 59198

To Vandana Tripathi, FBL

Subject *"SME management accounting needs and the role of small accounting practices (SAPs)."*

Ref HREC/2014/1709/Tripathi/1
AMS/RED n/a
Submitted 14 May 2014
Date 22 May 2014

Memorandum

This memorandum is to confirm the research protocol for the above-named research project, as submitted for ethics review, **has been given a favourable opinion** by the Open University Human Research Ethics Committee by **Chair's action** as it is thought to be low risk.

Please make sure that any question(s) relating to your application and approval are sent to Research-REC-Review@open.ac.uk quoting the HREC reference number above. We will endeavour to respond as quickly as possible so that your research is not delayed in any way.

At the conclusion of your project, by the date that you stated in your application, the Committee would like to receive a summary report on the progress of this project, any ethical issues that have arisen and how they have been dealt with.

Regards,

Dr Duncan Banks
Chair OU HREC

Appendix C – Case Study Protocol

This protocol describes the general processes adopted in carrying out this research including the analysis of data. Processes specific to the research (such as the adoption of theoretical frameworks, the testing criteria in relation to those frameworks) are covered in the main body of the thesis so have not been included in this protocol. This appendix focuses only on the empirical stage of the research.

1. Data collection using a semi-structured questionnaire
2. Data transcription and analysis
3. The format of the individual case and cross-case analyses in relation to the theoretical frameworks.

1. Data Collection

Informants should be contacted via email outlining the purpose of the research, an introduction of the research topic and the procedures used for conducting the research. The key informants details should be recorded once access is granted and access arrangements noted. A semi-structured questionnaire should be used for conducting the research. The interview should be recorded and field notes should be documented.

2. Data Analysis

Once the interview has been transcribed the data should be coded. The coding scheme should be based on the main theoretically based issues raised by the research question and criteria for conformity to each of the competing theoretical frameworks. The coding should be systematic so the collation by the NVivo software of the coded information allows the data analysis to be rigorous, bringing out key findings in relation to the research question and the theoretical frameworks.

The coding scheme used in this research is given in diagram A3.1 overleaf.

Figure A3.1 – Themes Used

Data coded using these themes may contain evidence *for* or *against* the theme

Is_SE	Evidence that the business is a small enterprise.
Fback	Firm's background including business structure, competition, pricing, products, services.
Gov	Governance structure of business affecting innovation, staff learning.
NReq	Management accounting is not required by business model (eg, the business is too small).
OmBackg	Background of owner-manager or respondent.
AcBackg	Background of external accountant.
MAUsed	Use of management accounting in the business.
AuditConflict	Conflicts of interest if the same accountancy practice does audit and accounts.
OmViewAc	Owner-managers' perception of accountants.
AcViewOm	Accountants' perception of owner-managers.
ExtPush	Pressure from external sources (such as banks, accounting organisations, accounting regulations).
OmCostBen	Owner-managers' cost-benefit analysis of the use of external accountants (well informed rational analysis leading to optimal choice, institutions shaping assessment of cost or benefit):
NThink	Owner-managers didn't think to ask for management accounting services from external accountants.
OmAcHist	Owner-managers perceive the role of external accountants as concerned with historical accounts or tax minimisation and not with business development.
OmInsight	Owner-managers gain insight from carrying out management accounting themselves or in-house.
OppCost	Opportunity cost of in-house management accounting.
OmConfidy	Owner-managers carry out management accounting in-house in order to protect confidentiality.
OmFearCh	Owner-managers fear change (or are seen as fearing change by accountants even though the real reason for not using external accountants may be different).
OmSatis	Owner-managers are satisficing rather than seeking to maximise profit.
OmAcTrust	Lack of trust between owner-managers and external accountants.
AcCostBen	External account's cost-benefit analysis of offering management accounting services.
AcBusUnd	External accountants lack understanding of how businesses work.

Continued ...

... Continued

AcSkill	External accountants lack expertise (other than understanding of how businesses work), including soft skills like communication and flexibly tuning into what is being asked for.
InfUncust	Management information is generalised, not customised to suit the business's needs.
AcPromo	Whether accountants promote management accounting services sufficiently and effectively.
AcBusMind	Whether accountants see their practice as a business based on innovation.
ContextDiff	The business context is different from that given in management accounting textbooks.
BigPicture	Owner-managers are too tied in daily work see the bigger picture.
ResrceLack	Effect of limited resources (money, staff, time): firefighting, juggling resources.
Ambig	The existence of ambiguity (at time of decision)
UncertParam	Unpredictability in the parameters assumed at the time of a decision, such as the discount rate, arising from uncertainty about the future.
UncertOutcm	Unpredictability of outcomes arising from uncertainty about the future.

3. The Collation of Research Findings and Analysis in relation to Theoretical Frameworks

An analytical report should be prepared for each individual small firm and SAP case in terms of the objectives of the research.

The patterns of behaviour and processes analysed in the individual case reports should be drawn together across the cases and groups of cases, describing extent to which they are consistent with the criteria of conformity to the theoretical frameworks.

The case report should be based on the themes identified in the data in order to facilitate analysis as to whether behaviour conforms to the criteria for the competing theoretical frameworks.

The style of report should refer briefly to relevant information concerning the organisation and the professional and academic background of the respondent. Direct quotes from the

respondent should be included in order to add weight to the findings. The narrative should flow clearly to allow the reader to understand the significance of the points raised in terms of the overall context of the organisation being considered.

The cross-case analysis should be explicitly related to the competing theoretical frameworks.